TAX·FEATURES

CEA Chairman Feldstein Named For Tax Foundation's Annual Award

Martin Feldstein, Chairman of the President's Council of Economic Advisers (CEA), has been named by the Tax Foundation's Board of Trustees as recipient of this year's Distinguished Public Service Award. The honor will be bestowed on Feldstein November 30 at the Foundation's 46th Annual Dinner in New York by W. Bruce Thomas, Chairman of Tax Foundation's Board of Trustees and Vice Chairman-Administration and Chief Financial Officer of United States Steel Corporation.

In announcing the Board's decision, Thomas said, "Dr. Feldstein took on his present responsibilities in the midst of the gravest economic crisis the nation has faced since the Great Depression. His expertise and the great respect he enjoys in the government and private sector have served as an important stabilizing force while the policies are being implemented that are moving us out of that recession."

Prior to his nomination to the CEA in August of 1982, Feldstein was Professor of Economics at Harvard University and President of the National Bureau of Economic Research. He specializes in macroeconomics and the economics of the public sector.

He received his A.B. from Harvard College, summa cum laude, and attended Oxford University as a Fulbright scholar. He became a member of the faculty of Oxford in 1965 as Lecturer in Public Finance and a Fellow of Nuffield College. He received his Ph.D. from Oxford in 1967.

In accepting the Foundation's Distinguished Public Service Award for 1983, Feldstein will address the Foundation's Board and other leading corporate executives on the challenges confronting the United States as the recovery unfolds.

For further details or to register for the Dinner, contact Justine D'Andrea or Cynthia Gozigian at 202/328-4500.

Top U.S. Earners Pay Nearly Half of Taxes On Individual Income

The Federal individual income tax bill for tax year 1981 was $285.8 billion. Over $264 billion of this was paid by the higher-earning 50 percent of taxpayers, represented by the 47 million returns with incomes of $14,029 or more.

These earners paid 92.6 percent of the Federal individual income tax bill in 1981, according to Tax Foundation analysis of data recently released by the Treasury Department. This group paid an average tax of $5,599. By comparison, in 1976 the richer half of taxpayers carried 92.8 percent of the Federal tax burden, with an average tax of $3,128.

Moreover, almost half of the tax bill was shouldered by the 9.5 million taxpayers earning in the top 10 percent income bracket. They paid an average of $14,519 in Federal income taxes.

Those earning $38,773 or more in 1981 paid 48.0 percent of all U.S. personal income taxes. Five years earlier, earners in the top 10 percent were footing 48.3 percent of the Federal income tax bill, with an average tax of $8,147.

Those making $14,028 or less paid only 7.4 percent of all Federal income taxes in 1981, although this was up a fraction from 7.2 percent in 1976. Their tax bills averaged $450 in 1981 and $243 in 1976.

Earners in the lowest 25 percent income group—those making $6,578 or less—paid just 0.7 percent of the Federal income taxes in 1981, an average of $83 per return. The 9.5 million returns in the lowest 10 percent income group paid an average tax of $15 in 1981.

The average tax for all taxpayers in 1981 was $3,024—an increase of 79 percent from 1976.

The number of millionaires has more than quadrupled since 1976. In 1981, 5,512 persons reported incomes of $1,000,000 or more, up by 4,155 from 1,357 in 1976. The millionaires paid an average tax of $913,203 in 1981 (60 percent of taxable income).

Federal Income Taxes Paid by High- and Low-Income Taxpayers
1976 and 1981

Adjusted gross income class	Income level		Percent of tax paid		Average tax	
	1976	1981	1976	1981	1976	1981
Highest 10 percent	$25,721 or more	$38,773 or more	48.3	48.0	$8,147	$14,519
Highest 25 percent	17,532 or more	25,768 or more	71.6	72.3	4,825	8,750
Highest 50 percent	9,719 or more	14,029 or more	92.8	92.6	3,128	5,599
Lowest 50 percent	9,718 or less	14,028 or less	7.2	7.4	243	450
Lowest 25 percent	4,487 or less	6,578 or less	.5	.7	35	83
Lowest 10 percent	1,804 or less	2,725 or less	(a)	(a)	5	15

[a]Less than .05 percent.
Source: Tax Foundation computations based on Treasury Department data.

THIS ISSUE:

PAGE 1:
TF Award; Top Earners

PAGE 2:
Tax Index

PAGE 3:
TF Conference; Volunteer Tax Help

PAGE 4:
Taxing Retirement Income

INSERT:
State Taxes

Corporate Profits Boost Tax Index

"The Tax Index grew almost 50 percent faster than the nation's output—Gross National Product—in the second quarter."

The Tax Index reached a level of 446.0 in the second quarter (1967=100), rising at an annual rate of 19.8 percent over the first quarter. This marked the third consecutive rise in the quarterly Tax Index, coinciding with numerous and widespread signals of economic recovery. The second quarter rise in the Index followed a 8.8 percent annual rate gain in the previous quarter.

The sharp rise in corporate profits (20 percent) during the second quarter was a significant factor in the latest rise in the Tax Index. Accrued taxes on those profits accounted for more than 33 percent of the dollar increase in total taxes. The Index component for corporate profits taxes catapulted from a recession low of 166.3, reached in the fourth quarter of 1982, to 234.0 in the second quarter 1983, an increase of 40 percent.

Both Federal and State-local components of the Tax Index rose significantly during the second quarter, showing annualized growth rates of 19.9 percent and 19.3 percent, respectively. The Federal Tax Index stood at 431.2, and the State-local Index at 476.6—both all-time high figures.

Boosts in social security taxes have been a major factor holding the Federal Index on a rising course. Federal social security taxes climbed without interruption to a second quarter Index level of 641.5; the equivalent State-local Index reached 563.5.

Fueled by extensive legislative increases, state-local tax receipts continued to grow virtually undaunted by the economic contraction.

The Tax Index grew almost 50 percent faster than the nation's output—Gross National Product (GNP) measured in current dollars—in the second quarter. Nominal GNP itself increased by a healthy 13.3 percent, following an 8.2 percent annualized rise in the first quarter. In sharp contrast, prices rose at a 3.3 percent rate. The standing of the Tax Index relative to its 1967 base today remains significantly above the output and price indexes. The GNP index (1967=100) stood at 409.2 in the second quarter, the price index at 271.4, and the real output index at 150.8.

Since the third quarter of 1981, the pre-recession high for the overall Tax Index, its growth to date has fallen below that of GNP because of a slowing in the rate of increase in Federal taxes. During the ensuing seven quarters, nominal GNP has grown by nearly 9 percent, and the overall Tax Index by just over 6 percent. In sharp contrast to the 2 percent rise in the Federal Index, the State-local Index has jumped by 16 percent.

Along with weaknesses in the general economy and the slowing of inflation, the Federal Tax Index mirrors tax reductions enacted in the Economic Recovery Tax Act of 1981 (ERTA), which have been phased in starting in October 1981. (The last stage of ERTA, the 10 percent tax cut that took effect July 1, 1983, is not yet reflected in the Index for the second quarter of this year.) Since the third quarter of 1981, Federal taxes have declined from 20.9 percent of GNP to 19.5 percent in the second quarter of 1983.

The only weak component of the State-local Tax Index has been corporate profits tax accruals. The Index for this sector reached a low of 484.9 in fourth quarter 1982 (down from 631.6 before the onset of the recent recession). The recovery has been notable, however: a 36 percent increase in state-local corporate income taxes for the first two quarters of 1983.

The overall personal income tax growth has risen to a 503.7 Index level for second quarter 1983—462.8 at the Federal level and 921.8 at the state-local level. If recent trends continue, the State-local Index for personal income taxes can be expected to break 1,000 by mid-1984.

Indirect business taxes during the first two quarters of 1983 showed a rise of 8.0 percent—17.0 percent at the Federal level and 6.3 percent at state-local levels of government. Federal indirect business tax increases have been primarily attributable to the mushrooming growth in so-called windfall profits tax collections. State-local increases have consisted largely of local property tax recovery combined with legislated increases in broad-based, state government taxes, such as general sales and income levies.

Tax Index and Related Measures

Annually, and Quarterly at Seasonally Adjusted Annual Rates, 1967 = 100
Selected Periods 1970 to 1983

Calendar year and quarter	Tax Index			Output Index[a]		
	Total	Federal	State and local	Current prices	Constant prices	Price Index[b]
Annually						
1970	132.2	127.5	142.1	124.2	107.3	115.7
1975	204.3	191.0	232.1	193.8	122.0	158.8
1976	234.0	220.7	261.7	214.9	128.4	167.4
1977	263.1	249.7	291.1	239.9	135.4	177.1
1978	296.2	287.3	314.8	270.6	142.2	190.3
1979	331.5	328.4	338.0	302.4	146.3	206.7
1980	361.2	359.0	365.9	329.3	145.7	226.0
1981	412.0	416.0	403.6	369.5	149.7	246.8
1982	416.0	408.3	431.9	384.3	146.9	261.7
Quarterly						
1980 I	352.2	349.7	357.5	321.8	148.0	217.5
II	350.4	347.6	356.2	322.5	144.5	223.2
III	363.6	360.8	369.5	330.1	144.8	228.0
IV	378.9	377.9	381.0	342.2	146.1	234.2
1981 I	404.6	409.5	394.3	358.5	149.3	240.1
II	408.7	413.2	399.4	364.3	149.5	243.6
III	419.7	423.8	411.2	375.8	150.9	249.1
IV	416.4	417.0	415.1	379.2	149.0	254.5
1982 I	412.9	410.4	418.1	377.9	146.9	257.2
II	416.8	411.4	427.9	384.0	147.3	260.8
III	416.5	406.5	437.4	386.5	146.9	263.1
IV	417.4	405.0	443.8	388.9	146.4	265.6
1983 I	426.3	412.1	456.1	396.6	147.3	269.2
II	446.0	431.2	476.6	409.2	150.8	271.4

[a]Gross national product.
[b]Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

Monthly Tax Features

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TF Conference: "Seeking a Balance"

Tax Foundation's 35th National Conference will focus on "Taxes, Spending and Growth—Seeking a Balance," in an all-day session on Wednesday, November 30, at The Plaza Hotel in New York City. Analysts from government, industry, and academia will discuss a broad range of topics.

Leif H. Olsen, Chairman Economic Policy Committee, Citibank, N.A., will keynote the morning session with an economic overview of the coming year. A panel discussion chaired by Thomas J. McHugh, Vice President-Taxes, Dart & Kraft, Inc., follows, dealing with "Taxing, Spending and Growth." Speakers are:

- The Honorable Bill Gradison, U.S. Representative from Ohio's 2nd District—"Taxing."
- J. P. Bolduc, Chief Operating Officer of the President's Private Sector Survey on Cost Control in the Federal Government (Grace Commission)—"Spending."
- Dr. Bruce Bartlett, Chief of Staff, Joint Economic Committee, U.S. Congress—"Growth."

John E. Chapoton, Assistant Secretary for Tax Policy, U.S. Department of the Treasury, will address "Long-Range Planning in Tax Policy" at the luncheon session. Trustee Hans W. Wanders, Chairman of the Board, Wachovia Bank & Trust Company, N.A., and The Wachovia Corporation, will chair.

Wilfred J. Tremblay, Vice President-Taxes, The Hanna Mining Company, will preside over the afternoon session. Dr. Lawrence H. Summers, Department of Economics, Harvard University, will lead off with the topic, "Is There a Consumption Tax in the Wings?" Dr. Allen Schick, School of Public Affairs, University of Maryland, will conclude the program with "Exit the Legislative Veto—What Now?"

The conference is followed by the Tax Foundation's 46th Annual Dinner at which Martin Feldstein, Chairman of the President's Council of Economic Advisers, will receive the Foundation's Distinguished Public Service Award for 1983.

For further details or to register for the Conference, contact Justine D'Andrea or Cynthia Gozigian at 202/328-4500.

THE FRONT BURNER

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"A Helping Hand from IRS"

No one likes to pay taxes. Many of us are not only reluctant to surrender our hard-earned dollars to Uncle Sam or his state and local counterparts, but we are also put off by the sheer difficulty of trying to do so. Those who find the complexities of the Tax Code insurmountable and possess the resources can hire professional help. Not everyone is so fortunate, however.

That is where the VITA program of the Internal Revenue Service (IRS) comes in. Under VITA—Volunteer Income Tax Assistance—the IRS trains and coordinates volunteers to assist individuals who cannot afford professional tax help. VITA focuses primarily on the basic tax documents, Forms 1040A and 1040. Primary beneficiaries are low-income earners, the elderly, non-English speaking citizens and certain handicapped taxpayers.

The IRS trains VITA volunteers in four-to-five-day basic courses in major cities and also provides one-to-three-day refresher courses for experienced tax helpers. Training materials and instructors are provided free of charge. Sessions are generally offered in December through January each year.

This column is being devoted to the IRS VITA program in the belief that it is a positive example of how the bureaucracy can and should serve the citizens. The IRS does not write the Tax Code. It merely enforces the will of our elected legislators. Over the years, that task has become incredibly complicated.

Certain portions of the Code are so complex and contradictory that even Senators and Congressmen will admit they do not themselves understand what they have enacted into law. The IRS, as the delegated collector of tax revenues, must often bear the brunt of criticism that ought more correctly to be aimed at the tax writing committees of the House and Senate. VITA is a positive, realistic response to such criticism.

Volunteerism is at the heart of our way of life. However, it is not quite as inevitable as the proverbial "death and taxes." Volunteers must be recruited. They must come forth. Programs that can use them wisely and well must be devised, implemented, and sustained.

In the tax arena, VITA is one such program. The IRS is to be commended for making it available to taxpayers needing assistance they cannot pay for. VITA deserves our support. And our involvement. For information or to volunteer, contact the IRS at 1-800-424-1040. Say you are calling about VITA.

"VITA is a positive example of how the bureaucracy can and should serve the citizens."

Social Security Benefits Taxed for First Time Under New 1983 Law

"The law sets out a formula that takes into account almost all earnings, dividends, or interest the beneficiary receives."

The Social Security Amendments of 1983 defined for the first time how income tax would be levied on social security and railroad retirement benefits. Prior to the enactment of this law, Congress had never explicitly acted on the exclusion of social security benefits from an individual's taxable income.

The exempt treatment of past years was derived from court decisions and IRS rulings which concluded that such benefits are in the nature of "gifts of public funds" not subject to tax. Other such "gratuities" that continue to remain exempt from tax, after the passage of the 1983 Act, include welfare payments and supplemental security income.

Although these provisions were part of the crisis-motivated package designed to infuse needed cash into the Old-Age and Survivors Disability Insurance (OASDI) trust funds, the full impact of the new law on the legal treatment of social security benefits remains to be seen. The initial effect on retired citizens, though, will be that a few wealthier recipients will find that they must pay some tax on the benefits they receive.

To determine what benefits must be treated as taxable income, the law sets out a formula that takes into account almost all earnings, dividends, or interest the recipient receives. Included in this formula is all interest income received from tax-exempt sources as well as all the sources considered normally taxable. By far the most common form of tax-exempt income is interest earned on state and local bonds.

To compute their tax liability, social security recipients must total their adjusted gross income, income from tax-exempt sources, and one-half of their benefits. If this sum exceeds $25,000 for a single individual, or $32,000 for a couple filing jointly, the taxpayer must include one-half of that excess as part of his taxable income. Tax-exempt interest is included in the formula to reduce taxpayers' ability to avoid the new tax by shifting funds from taxable to tax-exempt investments.

Anytime a specific dollar amount is written into the law, such as the $25,000 and $32,000 in this formula, certain taxpayers will fall just below this "notch" while others will find themselves just above it. In the case of a single taxpayer, every dollar of formula income above $25,000 will add a dollar to his taxable income, although the amount of benefits taxed cannot exceed more than one-half of benefits received. If he receives $10,000 in social security benefits, up to $5,000 could be added to taxable income. This invites an obvious response by the taxpayer to shift investments around or alter working arrangements in the effort to minimize his formula income.

The notch problem has impacted social security before. There has long existed a retirement-earnings test that serves to reduce benefits one dollar for every two dollars of earned income (income from wages and salaries) above a specified limit—$6,600 in 1983. (The reduction does not apply to those aged 70 or over.)

The accompanying table demonstrates how the impact of these two provisions on individuals with the same income level will vary depending on the source of the income.

Impact of Retirement Test and Taxation of Social Security Benefits for Retired Couple Filing Jointly, Maintaining Equivalent Wage Income Level After Retirement through Alternative Income Sources

	Wage earnings of $15,664 in year before retirement (1983 average beneficiary)			Wage earnings of $35,100 in year before retirement (1983 maximum beneficiary)		
	A	B	C	D	E	F
Source of income:						
Earned[a]	$15,664	$ 7,832	$ 0	$35,100	$17,550	$ 0
Taxable investment	0	7,832	7,832	0	17,550	17,550
Non-taxable interest	0	0	7,832	0	0	17,550
Social Security benefits:						
Potential benefits	10,604	10,604	10,604	13,728	13,728	13,728
Retirement test reduction[b]	(4,532)	(616)	0	(13,728)	(5,475)	0
Net benefits	6,072	9,998	10,604	0	8,253	13,728
Taxable benefits	0	0	0	0	3,613	4,982
Taxable income	15,664	15,664	7,832	35,100	38,713	22,532
Tax liability	1,207	1,207	157	4,722	5,725	1,931
After-tax income	20,529	24,455	26,091	30,378	37,628	46,897

[a]Earned income equals all wages and salaries.
[b]Applies only to beneficiaries under 70 years of age.

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TAX·FEATURES

State-Local Tax Take Rises Despite Contraction of U.S. Economy

Record Nontax Revenues Reach $102.9 Billion In States & Localities

State and local revenues from nontax sources topped the $100 billion mark in fiscal 1982 for the first time in history, according to Tax Foundation analysts. The total tax "take" was $102.9 billion, a 16.2 percent increase ($14.3 billion) over revenues recorded from such sources for 1981, and far above the 8.9 percent rise in state-local tax revenues for the same period.

Sources other than taxes accounted for almost 28 percent of general revenues raised in 1982 by state-local units, Foundation economists say. Put another way, state and local governments in the United States raised 39 cents in "nontax" revenues for every dollar that taxes brought to the general coffers that year. This compares to 34 cents per dollar in 1980, 25 cents in 1970, and 20 cents in 1960, Tax Foundation analysis reveals.

Only as recently as 1980 did state-local revenues from nontax sources exceed property tax yields. By 1982, nontax proceeds had outpaced state-local property taxes by a $21.0 billion margin (26 percent). Local governments alone in 1982 collected $59.6 billion from nontax sources, more than three-fourths as much as the $78.8 billion provided by local property taxes.

Nontax revenue sources were a high-growth segment of general revenues for state and local jurisdictions throughout the 1970s. For the period 1970-1982, nontax revenues rose by an average annual rate of 13.7 percent, compared to a 9.8 percent rate for taxes.

These nontax revenues are labeled "charges and miscellaneous general revenue" by the Census Bureau, which compiles the data. More than half of the total comes from current or "user" charges paid by the public for performance of specific services and from sales of commodities (other than utility and liquor store proceeds) benefiting the person charged. Current charges at state and local levels of government amounted to $56.0 billion in fiscal 1982.

Miscellaneous general revenue sources include special assessments collected from property

(Continued on page 6)

General state-local tax collections reached a level of $266.3 billion in fiscal year 1982, rising only slightly less than the average increase for the previous decade, even though a national economic contraction was under way throughout the fiscal year, according to Tax Foundation economists. (General taxes cover all levies except unemployment insurance.)

The $21.8 billion (8.9 percent) increase over the previous year (latest data reported by the Bureau of the Census on a fiscal year basis for the 50 states and the District of Columbia) is attributable in substantial measure to statutory increases in state and local taxes, Foundation analysts say. State legislatures alone enacted measures in 1981 and 1982 that were designed to boost tax yields by at least $8 billion annually.

From 1972 to 1982 state-local taxes rose by 143 percent, an annual average of 9.3 percent, according to researchers at the Tax Foundation. The fiscal 1982 increase falls just 0.4 percentage points below that average.

(Continued on page 2)

THIS ISSUE:

PAGE 1:
State-Local Taxes
Nontax Revenues

PAGE 3:
Legislative Veto
Consumption Tax

PAGE 4:
TF Seminar

PAGE 5:
F&F Highlights
Industrial Policy

Per Capita State and Local Taxes

Number in parentheses indicates standing of states according to burden of state and local tax. Dollars equals per capita tax in fiscal year 1982. *(Tax Foundation map)*

State-Local Taxes by State[a]
Per Capita and Per $1,000 of Personal Income
Fiscal Years 1972 and 1982

State	Per capita taxes: Amount 1972	Amount 1982	Percent increase	Rank 1982	Taxes per $1,000 of personal income: Amount 1972	Amount 1982	Percent change	Rank 1982
U.S. Average	$526	$1,175	123	—	$128	$111	-13	—
Alabama	318	764	140	49	104	92	-11	45
Alaska	480	6,998	1,359	1	102	496	386	1
Arizona	515	1,060	106	31	138	106	-23	27
Arkansas	314	729	132	51	104	90	-13	49
California	689	1,372	99	6	150	113	-25	19
Colorado	506	1,188	135	20	126	103	-18	31
Connecticut	639	1,324	107	9	129	102	-20	34
Delaware	573	1,216	112	17	124	109	-12	24
Florida	440	946	115	38	116	89	-23	50
Georgia	387	946	144	39	109	104	- 5	29
Hawaii	636	1,431	125	5	139	128	- 8	7
Idaho	413	859	108	44	124	95	-24	43
Illinois	580	1,197	106	19	122	103	-16	33
Indiana	460	876	90	43	115	91	-21	48
Iowa	498	1,130	127	24	130	108	-16	25
Kansas	465	1,070	130	30	111	98	-12	40
Kentucky	353	855	142	45	108	102	- 6	36
Louisiana	432	1,101	155	28	122	113	- 7	18
Maine	487	1,023	110	34	147	119	-19	13
Maryland	559	1,273	128	11	125	110	-12	23
Massachusetts	645	1,353	110	7	142	121	-15	10
Michigan	578	1,230	113	14	132	115	-13	16
Minnesota	577	1,290	123	10	144	119	-17	12
Mississippi	344	751	118	50	124	101	-19	38
Missouri	423	843	99	46	108	87	-20	51
Montana	520	1,227	136	15	145	129	-11	6
Nebraska	462	1,048	127	32	116	101	-13	39
Nevada	602	1,267	111	12	129	104	-20	30
New Hampshire	453	926	104	40	122	91	-25	46
New Jersey	557	1,353	143	8	117	111	- 5	21
New Mexico	415	1,142	175	22	128	131	3	5
New York	788	1,790	127	4	158	156	- 1	3
North Carolina	381	885	132	42	113	101	-10	37
North Dakota	425	1,131	166	23	121	110	- 9	22
Ohio	423	973	130	36	102	94	- 7	44
Oklahoma	374	1,210	224	18	108	115	7	15
Oregon	480	1,122	134	25	124	111	-10	20
Pennsylvania	522	1,116	114	26	126	108	-15	26
Rhode Island	518	1,223	136	16	127	120	- 6	11
South Carolina	343	842	146	47	110	103	- 6	31
South Dakota	453	916	102	41	132	105	-21	28
Tennessee	356	772	117	48	109	91	-16	47
Texas	390	1,079	177	29	107	97	- 9	42
Utah	422	1,011	140	35	126	117	- 7	14
Vermont	608	1,106	82	27	170	126	-26	8
Virginia	422	1,030	144	33	109	98	-10	41
Washington	531	1,172	121	21	129	102	-21	35
West Virginia	391	955	144	37	120	114	- 5	17
Wisconsin	622	1,260	103	13	161	125	-22	9
Wyoming	486	2,546	424	2	126	209	66	2
District of Columbia	612	1,924	214	3	104	144	39	4

[a]Excludes unemployment compensation taxes.
Source: U.S. Department of Commerce, Bureau of the Census, and Tax Foundation computations.

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(STATE/LOCAL TAXES, from page 1)

The strong economic recovery during 1983, together with further tax-raising activity, suggests that state-local taxes are currently rising faster than in 1982. Tax Foundation surveys indicate that, in 1983, the states alone hiked taxes by about $8 billion annually, and numerous localities boosted property and/or sales tax rates. According to the latest quarterly reports of the Bureau of the Census, state-local taxes were rising at annual rates of over 10 percent during the first half of 1983.

State taxes grew at a faster pace than local collections throughout the 1970s. General state taxes increased by $102.8 billion or 172 percent—from a total of $59.9 billion in fiscal 1972 to $162.7 billion in fiscal 1982. At the same time, general taxes at local government levels rose by $53.9 billion or 108 percent, from $49.7 billion in fiscal 1972 to $103.6 billion in fiscal 1982. As a result of these divergent growth rates, state collections jumped from 55 percent of combined state-local taxes in 1972 to 61 percent in 1982.

State and local general collections averaged $1,175 per capita in fiscal 1982—almost two-and-a-quarter times the $526 per capita level recorded for 1972. For this same period, though, state-local tax growth lagged behind increases in personal income. Nationwide, general taxes at state and local levels of government dropped from $128 per $1,000 of personal income to $111 per $1,000—down about 13 percent for the decade.

In 1982, 34 states and the District of Columbia had general taxes in excess of $1,000 per capita—8 jurisdictions more than in 1981. Alaska continued to rank highest among the states in per capita state-local taxes ($6,998), followed by Wyoming ($2,546), the District of Columbia ($1,924), New York ($1,790), Hawaii ($1,431), California ($1,372), and Massachusetts and New Jersey ($1,353). (California's new rank of sixth highest follows a post-Prop 13 low rank of tenth and a 1977 rank of second highest.)

The lowest taxes per capita in 1982 were recorded for Arkansas ($729), followed by Mississippi ($751), Alabama ($764), Tennessee ($772), and South Carolina ($842).

Residents of Alaska also experienced the highest increase in collections per capita for the decade—more than a fourteen-fold advance. The next biggest proportionate increases occurred in Wyoming (424 percent), Oklahoma (224 percent), the District of Columbia (214 percent), Texas (177 percent), New Mexico (175 percent), and North Dakota (166 percent).

Vermont saw the smallest relative increase of any state—82 percent—followed by Indiana (90 percent), and California and Missouri (99 percent).

Decreases in general state-local taxes in relation to personal income were recorded for the decade in 46 states. Of these, 13 showed declines of 20 percent or more. The most noteworthy of these were in Vermont (a decrease of 26 percent), New Hampshire and California (25 percent), and Idaho (24 percent).

Although taxes in relation to personal income declined for the nation as a whole, increases were registered for the decade in Alaska (a nearly four-fold increase from $102 to $496 per $1,000), Wyoming (66 percent), the District of Columbia (39 percent), Oklahoma (7 percent), and New Mexico (3 percent).

(Continued on page 4)

Legislative Veto/Consumption Tax Weighed at TF National Conference

Schick Says Chadha Case Weakens Executive Power

The Supreme Court, on June 23, 1983, "in one fell swoop, invalidated more provisions of law than it had done in 200 years," according to Professor Allen Schick of the University of Maryland. What Professor Schick was referring to was the Chadha decision [Immigration and Naturalization v. Chadha], invalidating the legislative veto.

Impact of 'Chadha' Unknown

Speaking on "Exit the Congressional Veto—What Now?" at Tax Foundation's 35th National Conference, Schick also noted, "The full impact of the Chadha decision is really quite unknown." He dismissed press reports which claimed that the decision increased the President's power and gave him more leeway than previously as "instant analyses . . . likely to be wide of the mark."

"In fact, the Chadha decision turns out, in some instances, to portend a significant weakening of the Executive Branch," he said, pointing out that the legislative veto, in each instance, has been signed into law by the current White House incumbent and that "in many cases that legislative veto emanated from a White House request to Congress."

Since the legislative veto is "so rarely used, why should we be concerned about its loss?" Schick asked.

"It would seem that, over the last 20 years," Schick explained, "we have a government which doesn't know what it wants to accomplish but knows what it doesn't want to accomplish. And so it vetoes; it restricts; it enacts those limitations and the legislative veto."

Pro and Con

One of the faults of the legislative veto is that the rule-making and regulatory activity "goes behind closed doors because staff from Congress negotiate with staff from agencies, with Washington reps." In such proceedings, Schick asked, "who represents the Congress of the United States? There's no floor activity; there's no committee markup; there isn't even a hearing."

The good side of the legislative veto, according to Schick, is that "in an era of mistrust between the two political branches of government, the Presidency and Congress, the legislative veto established terms of accommodation so that the exchange, the conduct of business between these two warring branches, could be civil."

The Supreme Court's Chadha decision complicated this situation because the Court did not seek narrow grounds for its decision, Schick observed. It said "all legislative vetoes, regardless of form, regardless of context, regardless of use, violate the United States Constitution."

(Continued on page 4)

Summers Sees Tax Revision As Way to Balance Budget

"I believe that fundamental tax reform along the lines of a consumption tax offers the best potential for reforming the tax system in a way to make it both more efficient and more equitable, while simultaneously raising more revenue," Harvard economist Lawrence H. Summers told Tax Foundation's 35th National Conference. He argued that a new tax structure was needed because "without increased tax revenue, we simply have no hope of moving towards a balanced budget."

Urgent Action Needed

Singling out what he called the "two primary strands of criticism which have pervaded discussions of tax policy in recent years"—fairness and economic efficiency—Summers suggested that "movements toward the consumed income tax offer the potential of achieving" both goals. He said the nation is reaching a point where budget deficits will create a crisis which will force us to take "urgent action" to restructure the tax system.

He argued:

- Government borrowing crowds out private borrowers, slowing the rate of investment.
- "We are importing more than we are exporting, which means that we are borrowing from abroad." This damages our competitiveness in world markets.
- As the nation nears full employment, "we face the possibility of a severely distorted economy with investment and tradeable goods being adversely affected by large budget deficits."

While either "substantial increases in revenue or substantial cutbacks in spending" could solve the problem, Summers called the likelihood of substantial cutbacks "implausible." "I believe," he said, "that without increased tax revenue, we simply have no hope of moving towards a balanced budget."

Why a Consumption Tax?

Summers told conference attendees that he had in mind a consumption tax "levied directly on individuals," not a value-added tax or a national sales tax. He gave three main arguments for supporting this approach to tax restructuring:

- "A consumption tax would promote economic efficiency and capital formation." It would provide "a greater incentive to save" and would "reduce borrowing," he said.
- Citing Thomas Hobbes, Summers also charged that a consumption tax would give us a fairer system of taxation, since a tax on what people remove from the social pot is a much fairer tax "than a tax on what they contribute to the social pot, which is measured by their income." He also said that consumption may be a more accurate measure of people's standard of living than is

(Continued on page 4)

"It would seem that, over the last 20 years, we have a government which doesn't know what it wants to accomplish but knows what it doesn't want to accomplish."

"We are importing more than we are exporting, which means that we are borrowing from abroad."

(SCHICK, from page 3)

Item Veto No Answer

Where do the Congress and the President go next? One suggestion is a deal: The White House agrees to seek a Constitutional amendment to permit the legislative veto in return for an "item veto" which would give the President power "to pick and choose from different provisions of law which cost money" and veto those which cost more money than he thinks they are worth. This item veto would be an attempt to deal with the Federal budget deficits, which Schick described as "intractable."

Schick took exception to this solution for a number of reasons:

- 77 percent of Federal expenditure is governed by provisions which would not be subject to an item veto.
- The item veto would augment Presidential power at the expense of Congress, which the Congress would find unacceptable.
- There is no single law which establishes the legislative veto. "No single formula can be spread across all the provisions of law, all administrative agencies of government, all activities of the White House, all dealings between the President and Congress," he said.

For these reasons, the legislative veto is unlikely to be resurrected, Schick said.

A Possible Solution

A recent bill drafted in the wake of the Chadha decision contains two provisions which may hold the solution, although Schick described them as "absolutely in contradiction of one another." One provision said rules made by a specific Federal commission would remain in effect unless they are disapproved by a joint resolution of Congress. This would give Congress a chance to vote and the White House a chance to veto unacceptable provisions in agency regulations.

The second provision said that no rule could take effect unless it were previously approved by a joint resolution.

"Why did the House contradict itself in a single bill?" Schick asked. "The two provisions establish the legal parameters for what is likely to ensue." On one hand, there is a system by which a regulation takes effect and then can be nullified by law. On the other hand, there is a system of legislative vetoes in which Congress would be the dominant party, "in which no rule of an administrative agency can take effect unless it were previously given a stamp of approval by Congress."

"Somewhere between these two poles," Schick predicted, "the legal outcome will occur."

Dr. Allen Schick is professor, School of Public Affairs, the University of Maryland. He had previously been a senior specialist with the Congressional Research Service.

"No single formula can be spread across all the provisions of law, all administrative agencies of government, all activities of the White House, all dealings between the President and Congress."

(STATE/LOCAL TAXES, from page 2)

In 1982, the highest state-local general tax burdens per $1,000 of personal income—next to Alaska's $496 high—were recorded for Wyoming ($209), New York ($156), the District of Columbia ($144), New Mexico ($131), Montana ($129), and Hawaii ($128).

Ranking lowest, by the same measure for 1982, were Missouri ($87); Florida ($89); Arkansas ($90); and Indiana, New Hampshire and Tennessee ($91).

The accompanying table provides further details.

(SUMMERS, from page 3)

their "measured income." Summers argued that "we can have higher marginal tax rates or at least a more progressive tax system under a consumption tax."

- The third argument in favor of a consumption tax, according to Summers, flows from the simplicity of the concept. After examining the Harvard Law School Course Catalog, he concluded that "we'd eliminate about 55 percent of the course work in tax law in at least one representative law school."

Five Difficult Issues

Summers ended his remarks with a detailed discussion of the five issues he considered most difficult to handle in implementing a consumption tax: bequests; the corporate tax; owner-occupied housing; managing the transition; and whether alternative types of consumption taxes, such as the value-added tax, were preferable.

Dr. Lawrence H. Summers is professor of economics at Harvard University and former domestic policy economist at the President's Council of Economic Advisers.

TF Seminar

"State Income Taxation of Multinational Corporations" is the topic of Tax Foundation's special seminar in Chicago, May 10, 1984. The all-day seminar will be held at The Westin Hotel in downtown Chicago from 9 a.m. to 4:30 p.m., and will feature experts on worldwide unitary taxation from government, business, academia, and the legal and accounting professions.

Dr. Charles E. McLure, Deputy Assistant Secretary of the U.S. Treasury, and the recently appointed Staff Director of the Treasury Department's Worldwide Unitary Taxation Working Group, is the featured luncheon speaker.

The $150 registration fee includes a reception during registration on the evening of May 9, the seminar, luncheon, and a copy of the Conference Proceedings.

For details or to register, contact:
Tax Foundation, Incorporated,
One Thomas Circle, N.W., Suite 500,
Washington, D.C. 20005 or call (202) 822-9050.

Currently Available

Facts and Figures on Government Finance—22nd Biennial Edition, 364 pp., $20.00 (Member price: $15.00).

"The Intimidation of Consensus Forecasting," by Leif H. Olsen, *Special Report*, 4 pp.

"Consumption Tax: An Idea Whose Time Is Coming," *Special Report*, 16 pp., $5.00.

"Unemployment Insurance: Trends and Issues," *Research Publication* No. 35, 96 pp., $5.00.

Fiscal Policy Forum, "At Issue: CPI Minus 2," 8 pp.

Fiscal Policy Forum, "At Issue: A Presidential Commission to Reform the Federal Tax System," 8 pp.

Fiscal Policy Forum, "At Issue: The Balanced Budget Amendment," 6 pp.

Fiscal Policy Forum, "At Issue: Productivity," 8 pp.

(Please include $1.00 for postage and handling.)

"Facts & Figures" Profiles U.S.

Tax Foundation's widely used handbook on public finance, **Facts and Figures on Government Finance**—22nd biennial edition, is now available. Among the highlights contained in the 283 tables are the following:

- Mississippi was the first state in the nation to levy a general sales tax—in 1932. Vermont was the last state to levy the tax—in 1969. 45 states currently levy a sales tax.
- In 1929, the earliest year for which Tax Freedom Day has been determined, the Day fell on February 9. In 1983 it fell on May 2. Tax Freedom Day represents the date on which the average person would finish paying Federal, state, and local taxes if all earnings since January 1 were turned over to governments to fulfill tax obligations.
- Also, in 1929, the average person worked 52 minutes of the eight-hour day to earn enough money to pay taxes. By 1983, the working time to fulfill tax obligations had grown to 2 hours and 40 minutes.
- The 46 largest cities raised $647 per capita in general revenues from their own sources in 1981. Property taxes brought in $203; general sales taxes, $74; and income taxes, $97—all on a per capita basis.
- Per capita general expenditures of U.S. cities in 1981 ranged from an average of $340 in cities with population below 50,000 to $1,206 in cities with 1,000,000 or more people.
- From fiscal 1980 to fiscal 1982, state severance tax collections grew by 88 percent—from $4.2 billion to $7.8 billion.

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"Industrial Policy—No Free Lunch"

"A horse assembled by a committee ends up as a camel," runs the old saw. An economy assembled by a committee ends up as a disaster. That's not a proverb. That's a lesson of history.

Look at France in the eighteenth century. Look at Britain in the twentieth. While you're at it, cast an eye on Soviet Russia, Maoist China, Castro's Cuba, and the Junta's Argentina. Central economic planning doesn't work. Just as the Lord causes his sun to shine on the just and the unjust, the market system, when its lessons are ignored, rains economic ruin on planners of the left and right, indiscriminately.

Yet, a number of economists and policymakers would have us ignore this lesson. Should their call for a "New Industrial Policy" prevail, it is unfortunately the taxpayers of the United States—factory workers, schoolteachers, businessmen, and the rest—who will pay for this wrong-headed refusal to look at and learn from the historical record.

There are no rational grounds—and certainly no verifiable experience—for arguing that a government can successfully pick winning industries or firms within industries, much less select the products and innovations on which those firms and industries should focus their resources. Paul McCracken, former Chairman of the Council of Economic Advisers and a Trustee of the Tax Foundation, put it quite succinctly in a recent issue of *across the board*:

> "Closer to home, a government that built the Washington subway out to the airport, and then carefully located the station beyond walking distance to the terminal would not seem to have the clairvoyance required to blueprint the whole economy."

Government has a different role. It must conserve and preserve what has successfully worked in the past. Businessmen themselves tend to be slow in developing new products and moving into new markets.

It is often at the margins that innovation and economic growth occur. No one—in government or out—can safely predict which marginal venture, which new product, will survive the test of the marketplace. That is why central planning of the economy carries the seeds of its own failure, even central planning carried out by representatives from management, labor and government, as the apostles of the "new industrial policy" would do.

The economic recovery, now strongly under way, clearly demonstrates that the market system works. The near-disastrous recession that preceded it showed that there is no quick fix, no painless shortcut back from the kind of irresponsible economic policy that gave us interest rates above the 20 percent level, inflation in the high teens, and near-record unemployment.

The point is simple. If you flout the law of gravity by jumping off a bridge, the law will take its inevitable retribution. The same applies to the economic policy arena. If you flout the law of the marketplace, you will inevitably be forced to learn again that "there ain't no free lunch."

"The economic recovery, now strongly under way, clearly demonstrates that the market system works."

(NONTAX REVENUES, from page 1)

owners for specific improvements (such as paving, drainage, etc.), interest earnings, sales of government property, receipts from other sources such as state-owned mineral resources, and other revenues. These yielded $46.9 billion in fiscal 1982, including $25.7 billion from interest earnings alone.

Interest earnings have risen sharply, at annual rates ranging up to 20 percent in 1981 and 26 percent in 1982. General interest earnings include interest on government loans, on securities held by governments, and on all other investments excluding those held by employee retirement and social insurance funds. They have grown from 13.4 percent of nontax revenues in 1970 to 25.0 percent in 1982.

From 1975 to 1980, while state-local taxes were rising at an annual rate of 9.6 percent, nontax revenues moved up by 13.8 percent a year. By type of revenue, the annual rates were 11.6 percent for current charges, 16.8 percent for interest earnings, and 18.2 percent for a large segment of other (mostly unspecified) receipts.

For the last two years, nontax revenues have grown even more rapidly in relation to taxes. From 1980 to 1982, nontax revenues recorded a 16.5 percent annual rate of increase (compared to a 9.2 percent rate for taxes). This figure reflects a 12.3 percent growth rate for current charges, 23.0 percent for interest earnings, and 21.2 percent for "other" nontax revenue.

Current charge revenue continues to come largely from a small number of key functional areas. Of the $56.0 billion raised in current charge revenue in fiscal 1982, $16.6 billion (or 30 percent) came from hospital charges. Another $13.5 billion (or 24 percent) originated in fees and charges of institutions of higher learning (including auxiliary enterprises). Other major sources of current charge revenue include payments for such governmental services as sewerage, school lunch sales, and air transportation.

Current charges are used more extensively by local jurisdictions than by the states. In 1982, local units collected $35.0 billion in user charges, or 21 percent of their own-source general revenues. The $21.0 billion from such charges raised by the states made up only 10 percent of own-source general revenues.

The accompanying table provides further details.

State and Local Revenue from Charges and Miscellaneous General Revenue by Source and Level of Government

Selected Fiscal Years 1975-1982
(Millions)

Source	1975	1980	1981	1982
Total by source				
Total	$39,676	$75,830	$88,595	$102,937
Current charges, total	25,588	44,373	50,238	56,041
Education	9,051	13,756	15,326	17,180
School lunch sales	1,672	2,013	2,105	2,320
Higher education	6,331	10,409	11,803	13,504
Other education	1,048	1,335	1,418	1,357
Hospitals	5,998	12,733	14,760	16,560
Sewerage and sanitation	2,542	4,873	5,702	6,452
Parks and recreation	493	1,174	1,370	1,493
Natural resources	347	726	831	832
Housing and urban renewal	794	1,310	1,346	1,501
Air transportation	1,019	1,826	2,098	2,295
Water transport and terminals	456	821	904	971
Parking facilities	251	335	369	399
Other	4,638	6,819	7,533	8,358
Miscellaneous general, total	14,088	31,457	38,358	46,896
Special assessments	825	1,288	1,355	1,552
Sale of property	340	517	577	679
Interest earnings	7,843	17,025	20,458	25,706
Other	5,079	12,628	15,969	18,959
Total by level of government				
State, total	$16,629	$32,190	$37,636	$43,338
Current charges	10,437	16,545	18,775	21,043
Miscellaneous general	6,193	15,646	18,861	22,295
Local, total	23,047	43,640	50,960	59,599
Current charges	15,152	27,828	31,463	34,998
Miscellaneous general	7,895	15,812	19,497	24,601

Source: *Facts and Figures on Government Finance*, 1983 Edition, Tax Foundation; basic data from Department of Commerce, Bureau of the Census.

Now Available

Facts and Figures on Government Finance, 22nd biennial edition. Order from: Tax Foundation, Incorporated, One Thomas Circle, N.W., Washington, DC 20005, (202) 822-9050; $20.00 (member's price, $15.00), plus $1.00 postage and handling.

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TAX FOUNDATION'S MONTHLY VOL. 28, NO. 3 MARCH 1984

TAX·FEATURES

Tax Index Reaches Record Levels As 4Q83 Taxes Rise by $79.4 Billion

The Tax Index climbed to a record level of 453.8 (1967=100) in the fourth quarter of 1983, registering its fifth consecutive quarterly rise since the end of the recession, according to Tax Foundation's analysis of preliminary data. The annualized rate of increase over the previous quarter was 5.5 percent.

The fourth quarter 1983 Tax Index mirrored an annual rate of Federal, state, and local tax receipts totaling $995.2 billion, an increase of $79.4 billion or 8.7 percent from the fourth quarter of 1982. During the period, state and local taxes claimed the greatest share of the increase, rising by 13.3 percent ($42.0 billion) to $357.7 billion. By comparison, Federal taxes rose 6.2 percent ($37.4 billion) to $637.5 billion. In the last quarter of 1983, the Federal Tax Index stood at 430.2 and the State-Local Tax Index, at 502.9, both on the 1967 base.

(Continued on page 2)

States' Biggest Haul From Sales Taxes— $50.3 Billion for '82

Slightly over 30 percent of all state tax collections come from general sales taxes, Tax Foundation economists say. This makes sales taxes, which are levied by 45 states, the single most productive revenue source employed by state governments, according to analysts at the Washington-based tax watchdog organization.

$50.3 billion was brought into state coffers by general sales and use taxes during fiscal year 1982. Connecticut's 7.5 percent sales tax heads the list for top rates, followed by: Washington (6.5 percent); Minnesota, Mississippi, New Jersey, Pennsylvania, and Rhode Island (6 percent); and Nevada (5.75 percent, which includes local tax). No state sales tax exists in Alaska, Delaware, Montana, New Hampshire, or Oregon, although municipalities in Alaska do impose sales tax.

Localities in 29 states levy sales taxes, generally in addition to those shown in the accompanying table. New York City and Yonkers, New York, with a combined state-local rate of 8.25 percent, are the highest in the nation. Oklahoma's 2 percent state rate is the lowest, although local taxes ranging up to 4 percent may also be imposed. (On February 15, 1984, the Governor of Oklahoma signed a bill raising the state's tax to 3 percent). Six states tax sales at a 3 percent rate.

Income taxes, both corporate and personal, are a fast-growing second source of state revenues. Only five states (Nevada, South Dakota, Texas, Washington, and Wyoming) have neither a corporate nor a personal income tax, and only seven states (the preceding five plus Alaska and Florida) have no individual income tax. (However, the individual income levies in Connecticut, New Hampshire, and Tennessee are quite narrowly based.) Individual income taxes comprised 28.1 percent and corporate income taxes, 8.6 percent of state tax revenues for a total of $59.7 billion in fiscal year 1982.

Income tax rates on corporations were highest in Iowa and Minnesota (12 percent); Connecticut (11.5 percent); Arizona, North Dakota, and Pennsylvania (10.5 percent). Top individual tax rates prevailed in Minnesota (16 percent); New York (14 percent); Delaware (13.5 percent); Connecticut, Iowa, and West Virginia (13 percent). In three cases state income taxes are levied as a percentage of Federal individual income tax obliga-

(Continued on page 2)

THIS ISSUE:

PAGE 1:
Tax Index
State Taxes
PAGE 3:
Corporate Taxes
"Annual Charade"
PAGE 4:
Tax Index Highlights
INSERT:
Paul McCracken

Tax Index and Related Measures

Annually, and Quarterly at Seasonally Adjusted Annual Rates, 1967 = 100
Selected Periods, 1970 to 1983[a]

Calendar year and quarter	Tax Index			Output Index[b]		
	Total	Federal	State and local	Current prices	Constant prices	Price Index[c]
Annually						
1970	132.2	127.5	142.1	124.2	107.3	115.7
1975	204.3	191.0	232.1	193.8	122.0	158.8
1976	234.0	220.7	261.7	214.9	128.4	167.4
1977	263.1	249.7	291.1	239.9	135.4	177.1
1978	296.2	287.3	314.8	270.6	142.2	190.3
1979	331.5	328.4	338.0	302.4	146.3	206.7
1980	361.2	359.0	365.9	329.3	145.7	226.0
1981	412.0	416.0	403.6	369.5	149.7	246.8
1982	416.0	408.3	431.9	384.3	146.9	261.7
1983	443.5	424.8	482.3	413.9	151.8	272.7
Quarterly						
1981 I	404.6	409.5	394.3	358.5	149.3	240.1
II	408.7	413.2	399.4	364.3	149.5	243.6
III	419.7	423.8	411.2	375.6	150.9	249.1
IV	416.4	417.0	415.1	379.2	149.0	254.5
1982 I	412.9	410.4	418.1	377.9	146.9	257.2
II	416.8	411.4	427.9	384.0	147.3	260.8
III	416.5	406.5	437.4	386.5	146.9	263.1
IV	417.6	405.0	443.8	388.9	146.4	265.6
1983 I	426.3	412.1	456.1	396.6	147.3	269.2
II	446.0	431.2	476.6	409.2	150.8	271.4
III	447.8	425.8	493.4	420.5	153.6	273.8
IV	453.8	430.2	502.9	429.2	155.3	276.4

[a]Annual and fourth quarter figures for 1983 are preliminary.
[b]Gross national product.
[c]Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

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(STATE TAXES, from page 1)

tions—in Nebraska, Rhode Island, and Vermont.

All 50 states tax gasoline, with the highest rates prevailing in Minnesota (17 cents); Washington (16 cents); Nebraska (15.4 cents); Hawaii (where combined state-local rates range from 12.5 to 15 cents per gallon); and Michigan, Wisconsin, and Montana (all 15 cents). Florida (4 cents), Texas (5 cents), Oklahoma (6.58 cents), and Missouri (7 cents) place the lowest levies on gasoline. The motor fuel taxes in Georgia, Maryland, and Rhode Island are levied at specific percentages of the wholesale or retail selling price of the product. In addition, some states also tax motor fuels under the states' general sales tax. In fiscal 1982, the states collected $10.4 billion, 6.4 percent of their total taxes, from motor fuels levies.

Cigarette taxes are another important source of state tax revenues. In fiscal 1982, the states collected $4.0 billion, or 2.4 percent of their total taxes, from tobacco products excises.

All states have local property taxes, and 42 have state property taxes; 39 states have both general sales and income taxes; and 33 states have general sales, income, and property taxes.

The accompanying table gives further details, as of January 1, 1984, for major taxes and rates prevailing in the states.

Major Taxes and Rates Used by States
As of January 1, 1984

State	Income taxes: Corporation	Income taxes: Individual	General sales and use tax	Gasoline tax (per gallon)	Cigarette tax (per pack of 20)	Property tax
Alabama	5% (F)	2 to 5% (F)	4%[a]	11¢	16¢	X
Arizona	2.5 to 10.5 (F)	2 to 8 (F)	5[a,b]	12[c]	13	X
Arkansas	1 to 6	1 to 7	4[a]	9.5	21	X
California	9.6	1 to 11	4.75[a]	9	10	X
Colorado	5	2.5 to 8 (F)	3.5[a,b]	12	15	X
Connecticut	11.5[d]	6 to 13[e]	7.5	14	26	X
Georgia	6	1 to 6	3[a]	7.5 + 3% of retail	12	X
Hawaii	5.85 to 6.435	2.25 to 11[f]	4	12.5 to 15	40% wholesale	
Idaho	7.7[f]	2 to 7.5	4.5[b]	14.5	9.1	X
Illinois	4.8	3	5[a]	11[c]	12	X
Indiana	3[g]	3	5	11.1	10.5	X
Iowa	6 to 12 (F)	5 to 13 (F)	4	13	18	
Kansas	4.5[h]	2 to 9 (F)	3[a]	11	16	X
Kentucky	3 to 6	2 to 6 (F)	5[a]	10	3	X
Louisiana	4 to 8 (F)	2 to 6 (F)	3[a]	8	11	
Maine	3.5 to 8.93	1 to 10	5	14	20	X
Maryland	7	2 to 5	5	13.5[b,k]	13	X
Massachusetts	8.33[i]	5[j]	5	11	26	X
Michigan	2.35	6.1[f]	4	15	21	X
Minnesota	6 to 12	1.6 to 16[m] (F)	6[a]	17	18	X
Mississippi	3 to 5	3 to 5	6[b]	9	11	X
Missouri	5 (F)	1.5 to 6 (F)	4.125[a]	7	13	X
Nebraska	5 to 7	20% of Federal income tax	4[a,b]	15.4	18	X
New Jersey	9[n]	2 to 3.5[o]	6	8	25	X
New Mexico	4.8 to 7.2	2 to 7.8[f]	3.75[a]	11	12	X
New York	10[p]	2 to 14	4[a]	8	21	
North Carolina	6	3 to 7	3[a]	12	2	X
North Dakota	3 to 10.5 (F)	2 to 9[q] (F)	4[r]	13	18	X
Ohio	5.1 to 9.2	5 to 5[f]	5[a]	12	14	X
Oklahoma	4	5 to 6[f] (F)	2[a]	6.58	18	
Pennsylvania	10.5	2.45	6[a]	12	18	X
Rhode Island	8[f]	26% of Federal income tax	6	13[k]	23	X
South Carolina	6	2 to 7 (F)	4	13	7	X
Tennessee	6	4 to 6[e]	4.5[a]	9	13	
Utah	4.65	2.75 to 7.75[f] (F)	4.625[a,b]	11	12	X
Vermont	5 to 7.5	26% of Federal income tax	4	13	17	X
Virginia	6	2 to 5.75	3[a]	11	2.5	X
West Virginia	6 to 7	3 to 13	5	10.5	17	X
Wisconsin	7.9	3.4 to 10[m]	5[a]	15[c]	25	X
Florida	5	These 7 states have no individual income tax	5[a]	4	21	X
Nevada	These 5 states have no corporate income tax		5.75[a]	10.25	15	X
South Dakota			4[a]	13[b]	15	
Texas			4[a]	5	18.5	
Washington			6.5[a]	16[c]	23	X
Wyoming			3[a]	8	8	X
Alaska	1 to 9.4		These 5 states have no general sales tax	8	8	X
Delaware	8.7	1.4 to 13.5 (F)		11	14	
Montana	6.75[f]	2 to 11 (F)		15	16	X
New Hampshire	8[u]	5[e]		14	17	X
Oregon	7.5[f]	4.2 to 10.8 (F)		9	19	X

(X) Indicates state levies a property tax.
(F) Allows Federal income tax as a deduction.

[a] Local taxes are additional.
[b] Rate reductions scheduled during 1984.
[c] Rate increases scheduled during 1984.
[d] If tax yield is greater, 3.1 mills per dollar of asset value ($250 to $100,000) or 5% of 50% of net income and certain compensation.
[e] In Connecticut, New Hampshire, and Tennessee, tax applies to income from intangibles only, at various rates according to type.
[f] Qualified taxpayers may elect to pay alternative taxes at varying rates.
[g] Tax is the greater of 3% of taxable income or the gross income tax. A supplemental net income tax is imposed at 4%.
[h] A 2-1/4% surtax is imposed on taxable income in excess of $25,000.
[i] Deductions limited.
[j] Additional 14% surtax is imposed.
[k] Tax imposed at percent of wholesale value.
[l] Tax of 10% on income derived from intangibles, and 5% on all other income, and an additional 7.5% tax.
[m] Plus 10% surtax for 1984 and 1985 in Minnesota, and 10% surtax for year 1984 in Wisconsin.
[n] Additional tax on net worth is part of the corporate franchise tax.
[o] Liability is for standard New Jersey personal income tax; taxpayers pay New Jersey-New York commuter's tax (2 to 14%) if larger.
[p] Alternative methods of calculation are used if tax yield is greater.
[q] Optional tax of 7.5% of taxpayer's adjusted Federal income tax liability.
[r] To be raised to 5% if general fund receipts ending June 24 are below $400 million.
[s] Surtax is imposed at 90% of basic tax.
[t] Liability is 40¢ per $100 of net worth if higher.
[u] Surtax of 13.5% is imposed.

Source: Compiled by Tax Foundation from data reported by Commerce Clearing House.

(TAX INDEX, from page 1)

For the year 1983 as a whole, the overall Tax Index stood at 443.5—6.6 percent above 1982 and 7.6 percent higher than in 1981, before most of the recently legislated Federal and state tax changes became effective. Federal taxes in 1983 were lowered by provisions of the Economic Recovery Tax Act of 1981 (ERTA), although 1982 Congressional action took back some of the original reductions. At the same time, state and local statutory provisions have worked in the opposite direction, pushing tax yields above their levels in the absence of new laws.

Reflecting tax legislative changes along with economic activity, total tax receipts rose by $69.1 billion between 1981 and 1983 to a total of $972.6 billion in 1983. State-local taxes rose by $56.0 billion, accounting for more than 80 percent of the dollar increases during the two-year period. Federal taxes, traditionally about twice the size of state-local taxes, rose by only $13.1 billion at the same time.

During the 1981-1983 period, tax payments to all governments dropped from 30.6 to 29.4 percent of gross national product (GNP), primarily reflecting the 1981 Federal tax cuts. Federal taxes dropped from 20.9 percent of GNP in 1981 to 19.0 percent in 1983. On the other hand, the share of GNP claimed by state and local taxes rose from 9.7 percent to 10.4 percent.

The largest source of dollar growth in tax receipts during the period was contributions for social insurance (OASDHI and unemployment insurance taxes). For the two-year period these receipts grew by $34.5 billion or almost 15 percent.

The second largest source of the two-year increase was indirect business taxes, a category covering sales, excise, and most property taxes. State-local taxes in this

(Continued on page 4)

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Gobbling Up the Economic Pie

By Paul W. McCracken

While deficits dominate fiscal discussions, they are not the fundamental fiscal problem confronting the U.S. and, for that matter, the Western world. The fundamental problem is the relentless tendency for government to pre-empt a growing proportion of the national income and output.

The deficit projections leave one with the feeling of standing on the edge looking into an almost limitless abyss. In his Budget Message, the president does project a deficit declining from this year's estimated $184 billion to $123 billion by 1989, with outlays in that year of $1.183 trillion, and receipts of $1.06 trillion. (These figures are about the size of the total gross national product in the early 1970s.) But this substantial shrinkage assumes some legislative actions proposed by the president, as the Budget Message is a pricing out of his proposed program, not a mere prediction of statistical things to come. On the basis of current tax and spending programs, however, the deficit for fiscal 1989 is projected to be $65 billion to $70 billion larger. And with so-called off-budget items included, the projected deficit for that year could be in the $200 billion zone.

Isn't the Proper Path

Other estimates are still higher. The Congressional Budget Office puts the deficit by 1989 at $326 billion if national defense budget authority rises 5% in real terms a year (which is roughly current policy), and $249 billion if there is no such real growth for defense.

Those who insist that this is not the proper path for the budget are, of course, correct. And there is a wide measure of agreement on this matter. For example: "...we cannot delay until 1985 to start reducing the deficits that are threatening to prevent a sustained and healthy recovery." This is not a pronunciamento by Messrs. Feldstein or Stockman or some mogul from the financial community. These words are Ronald Reagan's, in that part of the Economic Report that the president himself signs.

He is, of course, on target. The pool of funds available to all potential borrowers in any year will be 14% to 15% of GNP. If in 1989 our GNP is about $5.5 trillion, as projected in the Budget Message, about $800 billion of funds would then be available in credit markets for all borrowers. Experience suggests that the vigorous consumer and business capital formation required to make 1989 a reasonably prosperous year would involve about $700 billion of private borrowing. If the 1989 deficit is $300 billion, then the Treasury must pre-empt that much of the funds in credit markets, and the private economy would be about $200 billion short. These figures can, of course, lay no claim to precision, but they are broadly indicative of our problem.

As best the fiscal situation can be "modeled," we should guide the budget on a path that will assure a federal deficit five years hence of not more than $100 billion. If a more ambitious target could be achieved, so much the better—meaning, as it would, an even higher investment economy. And a good 1984 "downpayment" (to use the current buzzword) would do a lot for interest-rate levels and the readjustment of exchange rates so essential for redressing our severe trade imbalance.

Yet it is also true that simply plunging ahead toward a downpayment on the deficit might accomplish surprisingly little, even if a 1984 downpayment package can be fashioned, unless we see the larger war of which this deficit is one battle. We must deal with the relentless appetite of government for an ever-increasing share of the national income and output. In the U.S., outlays of government at all levels (federal, state and local) were equal to about 20% of the GNP as the 1950s opened, and this ratio is about 34% today. Moreover, the problem is more troublesome than this figure might imply.

For one thing, the economic pie that can be divided up on an ongoing basis is not gross national product, but net national product. This is not mere pedantry. It is net national product that attempts to measure the output of goods and services beyond what has to be produced to offset worn-out machinery, equipment and capital goods. Of our total gross output, 11% to 12% represents such replacement capital. Thus the share of the true economic pie being taken by government is not really 34% now, but about 38% to 40%.

That share started accelerating as we moved into the current decade. From 1979 to 1981, the rise in government spending was equal to 43% of the rise in GNP and to almost 50% of the rise in net national product (with cyclical influences stripped out). And if the uses of economic resources mandated by government through its credit programs and direct regulatory decrees are added, the public sector was pre-empting well over half the in-

This article, by Tax Foundation Trustee Paul W. McCracken, appeared in The Wall Street Journal, *on February 28, 1984. Because of its cogency, we have reproduced this article in its entirety for our readership, with permission.*

creases in income and output.

In many other countries in the Western world, this government share of incomes and output was moving ahead even faster. For Belgium, the Netherlands and Sweden, the rise in government outlays during the last decade was equal to about 75% or more of the rise in net national product, and for France and West Germany the figure was roughly 60%.

This growing government pre-emption robs the economy of vitality. In its June 1982 annual report, the Bank for International Settlements provided evidence suggesting that the retardation in rates of economic growth during the 1970s was associated with the rate of increase in the share of incomes and output channeled through government. This is not surprising. An economy in which the good things of life are seen to come through government downgrades productive effort as the route to income, and it fosters the formation of interest groups to claw for a larger share of the budget trough. With a per capita political influence larger than that of citizens generally, these organized groups can push the growth of government beyond what people want and are willing to pay for.

Forcing the allocation of a growing share of incomes and output through public-sector programs also produces a wasteful tailoring of limited economic resources to almost infinitely diverse patterns of consumer preferences.

It is not amiss to remember that heavy public-sector pre-emption of incomes and output is associated inevitably with the emergence of underground economies. The best evidence for this is quite simply that the magnitude of underground economic activity is now a subject of analytical articles in scholarly journals. There is, in short, a moral decay problem if government, rather than performance in competitive markets, is to be the avenue for success.

The basic budget problem for the 1980s, therefore, is how to strengthen fiscal discipline—how to restrain the relentless pressures for increased government. If the tax reductions of recent years have done nothing more, they have served to focus our attention on this issue.

In the slow and often inscrutable ways these things take shape, a congealing conviction does seem to be emerging in the public mind to halt government growth. And public opinion congealing on this (or any other) issue is a potent force even against the counterpressures of organized interest groups. Black-ink budgets were the rule in our history up to 1930 (outnumbering red-ink years, except for war periods, 3 to 1) even though we never had a law requiring them. We had that record because that was decreed to be the fiscal rule "by common consent." Nudged along, the emergency of such a common-consent rule could become a potent force for better budgets once again, even after a half-century lapse.

More Explicit Constraints

Yet after a half century, when both in practice and theory we convinced ourselves that a more relaxed view was appropriate, more explicit constraints may be required. Certainly the president ought to have his power of limited impoundment restored. That part of the Congressional Budget and Impoundment Act of 1974, which did set up the current useful machinery in the Congress, should be rescinded. Experience at the state level argues for the wisdom of giving the president the power of item veto. Thus members of Congress could have it both ways—voting for constituent projects, and relying on the president to clean up the budget.

Even stronger formal boundaries on the pre-emption of incomes and output by government may well be needed. Some sort of constitutional amendment requiring a better balance in the budget between revenues and outlays is starting to look more attractive. By the end of the decade, the howls of outrage against these ideas may be seen as little more than the usual establishmentarian disinclination to entertain new thoughts—plus the natural preference of those who like the public trough better than earning through performance in competitive markets.

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Corporate Taxes: Alive and Well

The President's Budget for fiscal 1985 projects receipts from the corporate income tax of $66.6 billion for the year ending September 30, 1984, an increase of nearly $30 billion over the previous year. In the next few years corporate income tax payments will continue to rise rapidly, reaching $97.9 billion by fiscal 1987.

Corporate income tax payments, according to the Budget, will be the fastest growing component of total Federal tax revenues. While individual income taxes are projected to rise at an average annual rate of 8.6 percent and social insurance contributions at an average annual rate of 11.6 percent from 1983 to 1987, corporate income tax payments are projected to have an average growth rate of 27.5 percent.

This may seem surprising in light of some recent ar-

(Continued on page 4)

Amounts and Average Annual Growth Rates of Budget Receipts by Major Source
Selected Fiscal Years 1975-1987

Source	Receipts (in billions) 1975	1982	1983	1987[a]	Average annual growth rate (percent) 1975-82	1983-87
Individual income taxes	$122.4	$297.7	$288.9	$401.6	13.5	8.6
Social insurance taxes and contributions[b]	84.5	201.5	209.0	324.1	13.2	11.6
Corporate income taxes	40.6	49.2	37.0	97.9	2.8	27.5
Other taxes	31.6	69.4	65.7	63.4	11.9	−0.9
Total receipts	279.1	617.8	600.6	887.0	12.0	10.2

[a] As projected in the Administration's Fiscal 1985 Budget.
[b] Includes OASDHI, unemployment insurance, and employee contributions to Federal retirement systems.
Source: Office of Management and Budget, and Tax Foundation computations.

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"The Annual Charade"

Soon Congress must vote once again to raise the ceiling on the indebtedness which the U.S. Treasury may incur to $2 trillion. Everyone knows that members of Congress will harrumph long enough to keep the folks back home impressed with just how austere they are and then vote to raise the ceiling.

Maybe we should just sit back and enjoy this perennial rite, let Congress get the need to talk fiscal restraint while voting financial profligacy off its chest, and then get on with the business of running the government. Maybe, but the annual charade rankles—especially when talk of responsibility is so flagrantly contradicted by repeated overwhelming votes for big spending—votes participated in by members from both parties and in both Houses of Congress.

On November 18, 1983, Congress approved an additional $101 billion in government borrowing authority and adjourned. They did so without even seriously attempting to meet their own mandate to approve $85 billion in deficit reductions for fiscal year 1984-86. In fact, Congress voted down every major deficit reduction measure which might have put that body in compliance with its own fiscal 1984 budget resolution.

This is the roll call on spending authority approved by the first session of the 98th Congress:

- Defense—$249.8 billion. Passed 311-99 in the House; 75-6 in the Senate.
- Energy and Water Development—$14.3 billion. Passed 337-82 in the House; 82-12 in the Senate.
- Housing and Urban Development/Independent Agencies—$55.8 billion ($6.4 billion more than requested). Passed 314-99 in the House; 79-17 in the Senate.
- Labor-Health and Human Services-Education—$96.5 billion ($1.3 billion more than requested). Passed 323-79 in the House; voice vote in the Senate.
- State, Justice, Commerce—$10.5 billion ($0.5 billion more than requested). Passed 417-3 in the House; voice vote in the Senate.
- Military Construction—$7.1 billion by voice vote in both Houses.
- Transportation—$10.9 billion, also by voice vote.

These bills account for nearly 98 percent of all appropriations voted during the 1st Session of the 98th Congress. In each, we see the overwhelming tendency to "write the check" for public spending. When the time comes, some time before mid-April, to deposit the funds to cover that check by raising the debt ceiling, we will undoubtedly hear vehement expressions of outrage at the need to ante-up for the spending Congress has already voted.

In a ranking of 14 public institutions by the Harris organization last fall, Congress came in eighth. Lack of respect is threatening to make this vital deliberative body the Rodney Dangerfield of public institutions. If members should wonder why, they might look at how they handle fiscal policy. Specifically, they might look at their unfortunate habit of voting on both sides of the issue when it comes to paying for the programs they establish.

"Lack of respect is threatening to make this vital deliberative body the Rodney Dangerfield of public institutions."

"Corporate profits' share of national income declined from 12.3 percent in 1968 to 6.7 percent in 1982."

(CORPORATE TAXES, from page 3)

ticles highlighting the decline in the proportion of corporate income taxes to total Federal taxes. Certainly corporate income tax payments no longer make up the same share of national income or Federal receipts as they did ten or fifteen years ago.

Corporate profits' share of national income declined from 12.3 percent in 1968 to 6.7 percent in 1982. Wages and salaries, on the other hand, maintained a 64.0 percent share of national income over the same period. In dollar amounts, corporate profits rose by $76 billion, or 85 percent, from 1968 to 1972. At the same time, wages and salaries grew nearly fifteen times as much—by $1,099 billion, or 234 percent. Whereas wages and salaries have steadily grown even through recessions, corporate profits have fluctuated dramatically.

In 1968, corporate income tax payments comprised 18.7 percent of all Federal receipts. In that year, social insurance contributions from businesses, employees, and the self-employed were equal to 22.5 percent of total receipts. By 1978, the corporate share had dropped to 15.0 percent while social insurance contributions had risen to 30.3 percent. For 1982, corporate receipts comprised 8.0 percent and social insurance contributions comprised 32.6 percent of total budget receipts.

This proportional decline does not have a corresponding decline in dollar amounts paid by corporations. The aggregate payments rose steadily throughout the seventies, except for reductions during recessions in 1970-1971, 1974-1975, and 1982-1983. After each recession, corporate tax payments rebounded to a level above the previous high. Why then the decline as a proportion of total tax receipts?

"Of the $49.8 billion in tax relief that was enacted in ERTA for corporations, there remains only $13.0 billion in 1987."

Social insurance contributions have increased at a rate faster than overall receipts, thus raising their proportionate share of the total Federal tax burden. Between 1975 and 1982, social insurance contributions grew at an average annual rate of 13.2 percent. At the same time, individual income tax payments, still the dominant source of Federal revenues, were expanding at an accelerated pace due to the interaction of inflation and the graduated rate structure. During this same period, 1975 to 1982, individual income taxes grew at an average annual rate of 13.5 percent.

The Economic Recovery Tax Act of 1981 (ERTA) reduced the growth rate of individual income taxes by reducing the top marginal rate from 70 percent to 50 percent, by lowering the marginal rates approximately 25 percent, and by indexing the individual income tax for inflation in 1985. In dollar terms, ERTA alone reduced individual tax payments $166.4 billion in 1987 from what they would have been otherwise. For corporations, ERTA was to reduce their tax payments $49.8 billion in 1987, primarily through the Accelerated Cost Recovery System (ACRS) and safe-harbor leasing.

Since 1981, several major tax increases have been legislated that have taken away many of the business provisions of ERTA. In fact, of the $49.8 billion in tax relief that was enacted in ERTA for corporations, there remains only $13.0 billion in 1987. If the proposals included in the President's Budget are also taken into account, the 1987 total drops to $8.9 billion.

The corporate income tax is alive and kicking. The marginal tax rate on most corporate profits is 46 percent before taking account of state and local levies, tax benefit transfers have been greatly restricted, and the benefits of the investment tax credit and the ACRS provisions have been curtailed.

Tax Index Highlights

Highlights of tax changes mirrored by the Tax Index between 1981 and 1983:

Total taxes. Up by $69.1 billion or 7.6 percent. Federal taxes up by $13.1 billion or 2.1 percent. State-local taxes up by $56.0 billion or 19.5 percent.

Taxes and GNP. Total taxes down from 30.6 to 29.4 percent of GNP. Federal down from 20.9 to 19.0 percent. State-local up from 9.7 to 10.4 percent.

Personal income taxes. Total up by $9.6 billion or 2.8 percent. Federal down by $1.9 billion or .6 percent. State-local up by $11.5 billion or 24.0 percent.

Corporate profits tax accruals. Total down by $7.1 billion or 8.6 percent. Federal down by $8.2 billion or 12.1 percent. State up by $1.1 billion or 7.2 percent.

Indirect business taxes (sales, excises, property). Total up by $31.7 billion or 13.6 percent. Federal down by $4.9 billion or 9.7 percent. State-local up $36.6 billion or 20.0 percent.

Contributions for social insurance (social security and unemployment compensation). Total up by $34.5 billion or 14.8 percent. Federal up $29.1 billion or 14.5 percent. State-local up $5.4 billion or 16.6 percent.

All other taxes (personal property, estate, and gift). Total up by $.4 billion or 2.6 percent. Federal down $1.1 billion or 15.7 percent. State-local up $1.5 billion or 17.6 percent.

(TAX INDEX, from page 2)

grouping rose by $36.6 billion from 1981 to 1983, or by 20.0 percent, more than offsetting a $4.9 billion reduction in Federal indirect taxes, including the windfall profits tax on oil.

The fastest growing taxes during the period were state-local personal income taxes, which jumped by 24.0 percent from 1981 to 1983, or by $11.5 billion. (This hike led the state-local personal income tax segment of the Tax Index to just over 1,000 in the final 1983 quarter—*the first component of the Index to reach the* 1,000 mark.) Reflecting the 1981 tax cuts, Federal personal income taxes dropped by $1.8 billion or .6 percent from 1981 to 1983.

Corporate profits tax accruals also showed diverse trends at the Federal and subnational levels. Federal taxes dropped $8.2 billion (12.1 percent) from 1981 to 1983, while state-local corporate taxes rose by $1.1 billion (7.2 percent).

Monthly Tax Features

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TAX·FEATURES

Tax Freedom Day—May 1!

CA, NY, TX Top List For Total Tax Burden Of U.S. Government

California, New York and Texas lead the pack again in fiscal year 1984 for the questionable distinction of having the largest Federal tax burdens in the nation. Predictably, the total dollar amounts taken in by Uncle Sam tend to be highest in states with the largest populations, explain economists at the Tax Foundation.

In fact, citizens in the ten most populous states will foot 57.6 percent of the total Federal tax burden, even though they have only 53.8 percent of the population. The total dollars involved are $373.2 billion. These "top ten," ranked in descending order of total Federal tax burden are:

CA	$76.9 billion
NY	$54.0 billion
TX	$47.1 billion
IL	$36.5 billion
PA	$32.8 billion
OH	$29.0 billion
FL	$28.5 billion
NJ	$26.2 billion
MI	$24.4 billion
MA	$17.8 billion

Sharply contrasting with the huge tax loads of the populous states is the tax burden borne by the ten smallest. The following contain about 3 percent of the population and will bear 2.9 percent of the Federal tax burden ($18.8 billion) in fiscal year 1984:

ME	$2.4 billion
DC	$2.3 billion
AK	$2.1 billion
ID	$2.0 billion
MN	$1.9 billion
DE	$1.9 billion
ND	$1.9 billion
WY	$1.7 billion
SD	$1.5 billion
VT	$1.2 billion

Per capita tax burdens impact the states differently, according to Tax Foundation analysts. They tend to correspond closely to individual levels of income, i.e., in states where individuals enjoy high personal income, tax burdens tend to be highest and vice versa.

(Continued on page 2)

First the good news. Tax Freedom Day is May 1, same as last year, according to Tax Foundation economists. This date marks the day the average taxpayer would finish satisfying obligations to Federal, state, and local governments if every dollar earned from January 1 went to the tax collector.

The bad news is that, since 1984 is a leap year, taxpayers will actually have to work one extra day—122 days instead of 121—to pay their tax bills. That additional day is needed, Foundation analysts say, despite a drop in the Federal tax bite. What Uncle Sam's tax cut leaves in taxpayers' pockets, state and local governments will take out, plus a little more.

Economists at the Washington-based tax watchdog organization also report that another milestone on the relentless climb toward higher taxes has been passed: 1984 marks the first year that total tax liabilities will exceed $1 trillion.

Worth noting in terms of the annual date of Tax Freedom Day in recent years, say Tax Foundation analysts, is that the day moved earlier in the year in 1982 for the first time since 1975. It was earlier still in 1983. Both decreases in the tax burden reflected the impact of the Economic Recovery Tax Act of 1981 (ERTA), modified somewhat by subsequent Federal tax increases.

The tax collector will claim an additional minute's worth of earnings from the typical worker's 8-hour pay

(Continued on page 4)

THIS ISSUE:

PAGE 1:
Tax Freedom Day
Tax Burden

PAGE 3:
Spending Taxes Front Burner

INSERT:
Prospects for State Taxes

Tax Bite in the Eight-Hour Day and Tax Freedom Day 1979-1984

Item	1979[r]	1980[r]	1981[r]	1982[r]	1983[p]	1984[f]
Taxes	2:41	2:43	2:46	2:41	2:39	2:40
Federal	1:48	1:49	1:53	1:47	1:43	1:43
State and local	:53	:54	:53	:54	:56	:57
Food	1:03	1:05	1:03	1:06	1:05	1:04
Housing and household operation	1:25	1:28	1:27	1:35	1:35	1:34
Clothing	:22	:22	:21	:22	:21	:21
Transportation	:42	:42	:41	:42	:43	:42
Medical care	:27	:30	:31	:35	:37	:36
Recreation	:19	:19	:19	:20	:20	:20
All other[a]	1:01	:51	:52	:39	:40	:43
Tax Freedom Day:	**May 3**	**May 4**	**May 6**	**May 3**	**May 1**	**May 1**

[a]Includes personal care, personal business, private education and research, religious and welfare activities, net foreign travel, and net savings.
[r]Revised.
[p]Preliminary.
[f]Forecast.
Source: Tax Foundation, derived from data supplied by U.S. Department of Commerce, Bureau of Economic Analysis.

Estimated Total and Per Capita Federal Tax Burdens, by State
Fiscal Years 1983-1985

State	Total burden (millions)			Per capita burden			State rank 1984	
	1983	1984	1985	1983	1984	1985	Total	Per capita
TOTAL	$580 619	$648,160	$724,097	$2,490	$2,757	$3,051	—	—
Alabama	7,204	8,085	9,031	1,819	2,033	2,259	25	48
Alaska	1,882	2,073	2,314	4,173	4,420	4,742	44	1
Arizona	6,391	7,162	8,008	2,198	2,412	2,639	28	35
Arkansas	3,929	4,447	4,965	1,714	1,940	2,166	33	50
California	68,758	76,894	85,894	2,742	3,013	3,304	1	13
Colorado	8,587	9,536	10,666	2,773	3,015	3,297	23	12
Connecticut	10,754	11,890	13,287	3,396	3,738	4,153	19	2
Delaware	1,692	1,880	2,099	2,801	3,103	3,447	47	8
Florida	25,429	28,468	31,803	2,388	2,600	2,821	7	27
Georgia	11,658	13,021	14,556	2,046	2,258	2,491	16	38
Hawaii	2,502	2,800	3,129	2,492	2,758	3,047	38	20
Idaho	1,804	2,041	2,280	1,856	2,083	2,307	45	46
Illinois	32,758	36,511	40,765	2,860	3,190	3,560	4	5
Indiana	12,544	14,000	15,639	2,296	2,572	2,880	12	29
Iowa	6,572	7,419	8,285	2,265	2,565	2,871	27	31
Kansas	6,321	7,077	7,909	2,609	2,903	3,219	29	15
Kentucky	6,962	7,823	8,730	1,898	2,135	2,383	26	44
Louisiana	10,348	11,504	12,853	2,344	2,569	2,825	20	30
Maine	2,167	2,435	2,718	1,910	2,142	2,386	42	43
Maryland	12,093	13,384	14,965	2,825	3,117	3,470	13	7
Massachusetts	15,931	17,764	19,836	2,750	3,061	3,409	10	9
Michigan	21,850	24,372	27,217	2,412	2,715	3,057	9	23
Minnesota	10,161	11,386	12,724	2,448	2,732	3,037	21	21
Mississippi	4,172	4,693	5,239	1,630	1,827	2,031	32	51
Missouri	11,303	12,656	14,137	2,278	2,548	2,840	17	32
Montana	1,723	1,946	2,173	2,138	2,402	2,663	46	36
Nebraska	3,582	4,038	4,511	2,251	2,532	2,818	35	34
Nevada	2,448	2,722	3,036	2,690	2,871	3,067	39	16
New Hampshire	2,380	2,642	2,954	2,477	2,716	2,996	40	22
New Jersey	23,602	26,229	29,305	3,164	3,508	3,906	8	4
New Mexico	2,767	3,096	3,459	2,007	2,205	2,419	37	39
New York	48,355	54,043	60,367	2,734	3,053	3,405	2	10
North Carolina	11,636	13,031	14,561	1,919	2,130	2,356	15	45
North Dakota	1,577	1,782	1,985	2,333	2,613	2,881	48	26
Ohio	26,012	29,005	32,406	2,412	2,695	3,014	6	24
Oklahoma	8,154	9,102	10,179	2,525	2,764	3,027	24	19
Oregon	5,965	6,725	7,508	2,249	2,534	2,825	30	33
Pennsylvania	29,305	32,761	36,584	2,471	2,768	3,093	5	18
Rhode Island	2,308	2,591	2,891	2,402	2,685	2,983	41	25
South Carolina	5,806	6,502	7,264	1,797	1,993	2,202	31	49
South Dakota	1,320	1,503	1,679	1,911	2,178	2,434	50	42
Tennessee	9,188	10,295	11,498	1,967	2,196	2,441	22	40
Texas	42,581	47,136	52,709	2,722	2,925	3,171	3	14
Utah	2,965	3,337	3,732	1,869	2,051	2,234	36	47
Vermont	1,056	1,191	1,330	2,039	2,294	2,552	51	37
Virginia	13,939	15,483	17,306	2,516	2,768	3,060	11	17
Washington	11,727	13,054	14,582	2,738	3,017	3,332	14	11
West Virginia	3,790	4,245	4,734	1,947	2,186	2,440	34	41
Wisconsin	11,085	12,405	13,853	2,317	2,583	2,870	18	28
Wyoming	1,504	1,675	1,872	2,931	3,185	3,461	49	6
District of Columbia	2,070	2,303	2,571	3,290	3,690	4,141	43	3

Source: U.S. total taxes as shown in the Federal budget submitted February 1984; computations of total and per capita tax burdens were made by Tax Foundation.

Monthly Tax Features

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(TAX BURDEN, from page 1)

In fiscal year 1984, residents in the ten states with the highest per capita tax burdens will pay approximately 26.3 percent of the tax bill, about $170.8 billion. Their average Federal tax burden, say Tax Foundation analysts, will be $3,276. Those residing in the ten states with the lowest Federal tax burdens will have an average Federal tax burden of $2,048, which works out to 8.3 percent ($53.9 billion) of the total.

"Top 10"		"Bottom 10"	
AK	$4,420	SD	$2,196
CT	$3,768	ME	$2,142
DC	$3,690	KY	$2,135
NJ	$3,508	NC	$2,130
IL	$3,190	ID	$2,083
WY	$3,185	UT	$2,051
MD	$3,117	AL	$2,033
DE	$3,103	SC	$1,993
MA	$3,061	AK	$1,940
NY	$3,053	MS	$1,827

The only major shift since fiscal year 1983 in the "Top 10" list is that Washington has dropped off and New York has been added. In the "Bottom 10," Vermont has dropped off for 1984 and South Dakota has been added.

Tax Foundation procedures for deriving these state estimates have been in use for more than twenty-five years and are revised annually. The listing is designed to show where Federal tax dollars actually originate, rather than where they are collected. By contrast, U.S. Treasury figures, which show where taxes are collected, do not always give as accurate a picture of the state-by-state impact of Federal taxation, according to Foundation economists.

An example of how the two methodologies differ appears in comparison of data related to the collection of Federal excise taxes on tobacco products. Treasury data show these taxes as collected mainly in a few southern states. However, Tax Foundation economists point out that the burden of these taxes may be assumed to fall on consumers of these products in all states, so that collections data do not show who is actually bearing the burden of these taxes.

The accompanying table provides details.

UNITARY TAX SEMINAR

"State Income Taxation of Multinational Corporations" is the topic of Tax Foundation's special seminar in Chicago, **May 10, 1984.** The all-day seminar will be held at The Westin Hotel in downtown Chicago from 9 a.m. to 4:30 p.m., and will feature experts on worldwide unitary taxation from government, business, academia, and the legal and accounting professions.

Dr. Charles E. McLure, Deputy Assistant Secretary of the U.S. Treasury, and the recently appointed Staff Director of the Treasury Department's Worldwide Unitary Taxation Working Group, is the featured luncheon speaker.

The $150 registration fee includes a reception during registration on the evening of May 9, the seminar, luncheon, and a copy of the Conference Proceedings.

For details or to register, contact immediately:
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How U.S. Spends Worker's Dollars

Where does a worker's Federal tax dollar go? Each year, analysts at the Tax Foundation ask that question. Their answer for fiscal year 1984 follows.

The worker chosen by economists at the Washington-based tax watchdog organization for 1984 earns $26,000, slightly above the median income for a one-earner family. That worker's total Federal taxes of $6,509 comprise the personal income tax ($2,227), social security tax ($1,742), and such indirect taxes as employer's share of social security taxes, corporate income taxes, and excise taxes on liquor, gasoline, tobacco, and air travel ($2,540). This is equivalent to more than 25 percent of our "typical" family's earnings.

The "big four"—income security, national defense, interest, and health—continue to claim more than 80 percent of the total when it comes to spending those dollars, although Tax Foundation analysis reveals some shifts in the composition of those four elements. Income security costs (social security, Federal employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance) are estimated at $275 billion in 1984. This is less than 1983, largely because of an $11 billion decline in unemployment compensation costs. Foundation economists explain that the strong recovery has lowered costs because of a decline in the number of unemployed persons.

While income security outlays were dropping, the share of the budget—and of the taxpayer's dollar—claimed by national defense, interest, and health continued to edge upward. National defense will take $1,775 of his tax payment; net interest on the debt will claim $809; and health expenditures (including medicare) will take $685. The accompanying table lists the other expenditures for which the worker's tax dollars are allocated.

That's not the whole story, though, according to Tax Foundation economists. Having paid Uncle Sam $6,509 in taxes, the "typical" family must also assume its share of the estimated $184 billion budget deficit projected for 1984. For the family earning $26,000, that burden is an additional $1,845. The end result is that current taxes and borrowing together claim over 32 percent of the family's earnings.

(Continued on page 4)

"Current taxes and borrowing together claim over 32 percent of the family's earnings."

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"Tax Freedom Day—The Plus Side"

The high cost of government is a favorite whipping boy for just about everyone. At the Tax Foundation, the annual announcement of Tax Freedom Day has occasionally given us the opportunity to get our licks in. In a Democracy, whose roots go back to what was essentially a tax rebellion, biting the hand that taxes us has a long and hallowed tradition. However, that's not the whole story.

Tax Freedom Day—this year, May 1—has a plus side, a positive connotation, that can be lost sight of as the pain of taxpaying strikes home each April. Mr. Bill Sweisgood, editor of the editorial page of *The Florida Times Union* reminded us of this fact in an editorial he wrote for his newspaper last February 3. He observed, in part:

"During those four months, the schools are open, the police are patrolling, food bought in the grocery has been inspected and people without enough money are able to buy some of those groceries.

"Also, since Jan. 1 of this year, paychecks have been issued to the Marines who are unflinchingly standing guard in Lebanon.

"All of those costs are paid during the 'burdensome' days leading up to Tax Freedom Day. Another way to look at it would be to say that all of those expensive services are free from May 2 [1983's announced date] through Dec. 31.

"So maybe national notice of the day is called for—not in mockery but in thankful recognition of what has been achieved by 240 million Americans working together."

We applaud Mr. Sweisgood's sentiments, and are delighted to share them with readers of *Monthly Tax Features*. As we wrote him in acknowledging his editorial:

"Sometimes in our zeal that the good not be the enemy of the best, we fail to acknowledge what a marvel this nation is. Thanks for jarring our memories. The Tax Foundation's motto, since its founding in 1937, has been 'Toward Better Government Through Citizen Understanding.' One thing we need to understand is just how good our government is, indeed, how unique it is in the history of human political action."

Tax Freedom Day 1984—May 1—gives us all pause to count our blessings.

"One thing we need to understand is just how good our government is."

(TAX FREEDOM DAY, from page 1)

in 1984, Tax Foundation economists report. This year it will take 2 hours and 40 minutes to pay that worker's tax bill: 1 hour and 43 minutes for Federal taxes (same as last year) and 57 minutes to cover state-local taxes (a minute longer than last year).

On the plus side, according to Foundation analysts, the Federal tax bite from the 8-hour day is 10 minutes shorter than it was in 1981 and 4 minutes shorter than in 1982. The reason lies in the tax cut passed in ERTA in 1981. However, state-local taxes have gobbled up 4 minutes of the total savings included in that measure.

(WORKER'S DOLLARS, from page 3)

The table shown below gives a detailed breakdown of how Uncle Sam will spend the worker's tax dollar.

How the Federal Government Will Spend A Worker's Tax Dollars in Fiscal 1984[a]

Function	Worker's share: Amount	Worker's share: Percent of total	Total amount (millions)
Income security[b]	$2,055	31.58	$275,118
National defense	1,775	27.26	237,548
Net interest	809	12.42	108,239
Health[c]	685	10.53	91,729
Education, training, employment, and social services	214	3.29	28,683
Transportation	195	3.00	26,123
Veterans' benefits and services	193	2.96	25,799
International affairs	101	1.55	13,502
Natural resources and environment	92	1.41	12,302
Agriculture	80	1.23	10,693
General science, space, and technology	62	.95	8,291
Community and regional development	57	.87	7,594
General purpose fiscal assistance	50	.77	6,741
Administration of justice	45	.69	6,021
General government	42	.65	5,652
Commerce and housing credit	28	.44	3,805
Energy	26	.40	3,463
Total	$6,509	100.00	$853,760[d]

[a]In this example, the worker is the sole source of support for a spouse and two dependent children, and earns $26,000 per year.
[b]Includes social security.
[c]Includes medicare.
[d]After deducting $17,541 million for undistributed offsetting receipts not classified by function.
Source: Office of Management and Budget, and Tax Foundation computations, based on official budget estimates presented February 1, 1984.

Tax Freedom Day Selected Years, 1930-1984

Year	Tax Freedom Day
1930	February 13
1940	March 8
1950	April 3
1960	April 17
1970	April 28
1975	April 28
1980[a]	May 4
1981[a]	May 6
1982[a]	May 3
1983[a]	May 1
1984[b]	May 1

[a]Revised. [b]Forecast.

Major allocations, other than taxes, from a worker's 8-hour pay envelope include: 1 hour 34 minutes for housing and household operations (1 minute less than last year); 1 hour 4 minutes for food and beverages (4 minutes less); 42 minutes for transportation (1 minute less); and 36 minutes for medical care (1 minute less).

The accompanying tables give details for Tax Freedom Day and the tax bite from the 8-hour day.

Tax Bite in the 8-Hour Day Selected Years, 1930-1984

Year	Hours and minutes: Total	Federal	State and local
1930	:57	:17	:40
1940	1:29	:45	:44
1950	2:02	1:30	:32
1960	2:22	1:40	:42
1970	2:34	1:40	:54
1975	2:35	1:38	:57
1980[a]	2:43	1:49	:54
1981[a]	2:46	1:53	:53
1982[a]	2:41	1:47	:54
1983[a]	2:39	1:43	:56
1984[b]	2:40	1:43	:57

[a]Revised. [b]Forecast.

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State Tax Prospects, 1984

A Tax Foundation Staff Report

Previous legislative tax increases, together with a 15-month period of vigorous economic expansion, appear to have eased fiscal conditions in most states. Legislative sessions, expected to convene in 44 states in 1984, will act on tax revision proposals that would have only a negligible effect on overall state tax yields, although effects could be significant in a number of states.

A Tax Foundation survey in late March found that 18 states were considering tax increases totaling $3.1 billion annually, while 12 states were weighing tax reductions of $1.7 billion. Approval of all these proposals could bring about a net $1.4 billion overall rise. However, if measures to extend temporary sales tax increases are considered, along with the expiration of income tax surcharges, the net increase would be only $764 million, less than four-tenths of one percent of state tax revenues (see table).

Not all of the proposals now on the drawing boards will be enacted, and still others may be forthcoming during the year. It seems likely, however, that the result of legislative tax activity in 1984 will stand in sharp contrast to that of the three previous years, when a cumulative total of more than $16 billion annually in higher taxes was approved. One year ago, in fact, state legislatures were pondering tax-raising proposals aggregating more than $12 billion (see *Tax Review*, April 1983); by the end of 1983, $8.25 billion in higher taxes had been approved.

While tax revision in recent years has generally been coupled with spending restraint aimed at offsetting expected budget deficits, the 1984 proposals are in many instances linked to higher spending.

As a percentage of total state taxes, the proposed increases in at least seven states are quite significant, ranging from about 9% in Kentucky to 25% in Louisiana (based on 1983 collections). Other states with proposed increases of 10% or more include: New Mexico, Oklahoma, South Carolina, Tennessee, and Utah. Among the 12 states where tax reductions are under consideration, the most significant tax relief would take place in Michigan, where the phase-out of a temporary increase may be accelerated (saving taxpayers $430 million). (In Illinois, corporate and personal income taxpayers will find their tax bills lower by $848 million, as temporary surtaxes enacted last year expire on schedule.)

General sales taxes figure most importantly in the proposals for net increases ($1.3 billion), followed by motor fuels ($980 million), tobacco ($128 million), and alcoholic beverages ($90 million). Proposed reductions and expiring surcharges would, on the other hand, cut personal income taxes by $1.5 billion, even when proposed increases are taken into account. Corporate income taxes would also drop by a net $75 million.

Thirteen states are considering proposals to change general sales tax rates. Increases are under study in Louisiana (passed), New Mexico, Oklahoma (passed), South Carolina, Tennessee (passed), and Vermont. Temporarily higher rates would be extended in Arizona, Idaho, and Utah. Reductions are proposed in Colorado, Nebraska, Rhode Island, and Washington.

Eleven states are considering changes in personal income tax rates: rate hikes in Alabama, Kentucky, Missouri, and Vermont; and rate cuts in Indiana, Michigan, Minnesota, Nebraska, Rhode Island, West Virginia, and Wisconsin. In addition, temporary surcharges would be allowed to expire in Illinois and Pennsylvania.

Under 1984 legislative bills, corporate income tax rates would be raised in Alabama, Massachusetts, Missouri, Utah, and Vermont. On the other hand, Nebraska, Pennsylvania, and Wisconsin may have rate reductions. A temporary increase enacted in Illinois in 1983 is likely to expire on schedule.

Other taxes targeted for possible increases in 1984 include motor fuels (eight states); cigarette and tobacco levies (four states); alcoholic beverage taxes (five states); motor vehicle registration fees and drivers' licenses (three states); and other new or increased taxes (eight states).

1984 Major State Tax Proposals

Proposal	Revenue effect (millions)	No. of states
Increases	+$3,074	18
Decreases	− 1,712	12
Extension of temporary increases	+ 344	3[a]
Expiration of temporary increases	− 943	2[b]
Net change	+$ 764	30

[a]Sales taxes in Arizona, Idaho, and Utah.
[b]Income taxes in Illinois and Pennsylvania.

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Selected State Reports

In **Alabama**, the governor proposed hiking the flat-rate corporate income tax from 5% to 6% and raising the maximum personal income tax rate from 5% to 6%, with the increase structured so that there would be no rise in the income tax liability of the average married couple. He also proposed property tax changes, including a new 6-mill state property tax, along with liberalized exemptions for small homeowners and small farmers; and equalizing the 2.2% utility license tax.

In **Arizona**, where a special 1983 session raised the sales and use tax rate from 4% to 5% for the first half of 1984, the governor this year recommended extension of the increase for an estimated $240 million in new revenue in fiscal year 1984-1985. $25 million would be disbursed to the counties. The net $215 million state share, along with $40 million in anticipated additional Revenue Department collections, would be used to balance the 1985 budget. Early this year, the legislature approved higher taxes on tobacco and alcoholic beverages and imposed a 4% transfer tax on certain vehicles.

In **California**, state administrative actions combined with economic recovery changed an impending $1.5 billion deficit into an estimated $741 million surplus. This year's budget calls for no tax increases, although the governor recommended establishing a $950 million emergency fund to deal with unexpected future contingencies. Other proposals up for discussion in 1984 include an additional county sales tax (not to exceed .25%), imposition of which would require a majority vote of county boards of supervisors. A constitutional amendment has been proposed to shore up provisions of Proposition 13 that are said to have been eroded through court decisions.

This year **Colorado** legislators will consider reducing the state sales tax rate from 3.5% to 3.1%.

Connecticut's governor called for hikes in the gasoline tax (initially from 14¢ to 17¢, and then to 24¢ over a 10-year period), and in vehicle registration and drivers' license fees (initially by 25%, with license fees doubling over the decade). The chief executive proposed financing transportation improvements from a new transportation fund to which all motor use taxes and registration and license fees would be dedicated (transportation costs are now financed largely from the general fund). Revenues deposited in the new fund would provide backing for the bond sales to pay the state's $2.1 billion share of the combined $5.5 billion in Federal-state money to be used for financing transportation improvements over the next decade—roads, bridges, airports, rail and bus lines.

Delaware's governor proposed a personal income tax reduction, to be offset in part by a corporation franchise and fee increase. A new 1984 law exempts all social security benefits from the income tax.

In **Florida**, where taxes have been raised sharply during the past year and a half, the general fund balance at the end of fiscal 1985 is projected at $944 million. The governor pledged not to consider tax increases. Tax reduction proposals include repealing the worldwide unitary approach to corporate income taxation and reducing the property tax levied for schools. The major fiscal issue in 1984 is an initiative on the November ballot that would roll back state and local revenues to their 1980-1981 level (for an initial cutback of about 23%) and restrict future increases to two-thirds of the change in consumer prices. The measure, Proposition 1 or "Citizen's Choice," would also change the constitution to require that future tax increases above the set limits be approved by voters.

Despite ~~a~~ drastic reduction in the state's estimated surplus by the end of fiscal 1985, **Hawaii's** governor announced he would not support any tax increases this year.

Idaho's governor announced that his state had adequate revenue, plus a surplus, and did not require tax increases. He did call for maintaining the present 4.5% sales tax rate (scheduled to drop to 3% on July 1, 1984), or alternative measures to raise equivalent revenues, such as eliminating exemptions and extending the sales tax to additional services.

The governor of **Illinois** recommended that the personal and corporate income surtaxes enacted in 1983 be allowed to expire on June 30, 1984, as scheduled. He had originally advocated a permanent surcharge, but said this was no longer necessary in view of economic recovery. A proposal to reduce the state utility tax is on the ballot as an advisory referendum in a number of localities. One suggestion is to make up the anticipated $330 million revenue loss by cancelling the corporate investment tax credit, decoupling Illinois from ACRS, and imposing the worldwide unitary apportionment rule on multinational firms operating in Illinois.

Indiana's chief executive urged the state to retain its ranking as one of the "least taxing" states, and to consider tax cuts when possible. Stating that Indiana's fiscal health is still precarious, however, he opposed a proposal to revoke almost all of a personal income tax rate hike enacted in 1982.

Iowa's governor called for no major state tax hikes. He suggested property tax relief and asked the legislature to permit counties and cities to impose local option taxes. The legislature is likely to consider proposals to raise the motor fuel excise from 13¢ to 14¢, along with hikes in alcoholic beverage taxes and drivers' license fees. Other issues in Iowa include the use of highway fund monies to pay for general fund obligations and adopting the unitary approach to corporate income taxation.

With revenues from the new severance tax enacted in 1983 far exceeding earlier estimates, the governor of **Kansas** did not propose any additional taxes this year. He recommended a constitutional amendment to set up a limited property classification system for tax purposes.

Kentucky's new governor asked for major tax increases tied to substantial education reforms. Her tax-raising pro-

posals included increases in the corporate license tax rate, which has not been increased since 1926; extension of the sales tax to many services not previously taxed; higher income taxes on more affluent taxpayers, partly offset by an increase in personal exemptions; and repeal of a sunset provision of ACRS, thus increasing the state's corporate income tax revenues. The governor stated that a minimum of $98 million in new revenues would be needed in fiscal 1985 and $226 million or more in 1986.

Following enactment of a $136 million increase in personal income taxes during a special legislative session in December 1983, **Louisiana's** new governor convened a special session this year to consider over $1 billion in additional tax hikes. The adopted measures, totaling $740 million, include a 1% rise in the state sales tax, a doubling (from 8¢ to 16¢) in the gasoline tax rate; an increase from 11¢ to 16¢ in the cigarette tax; a new hazardous waste tax; and increases in levies on alcoholic beverages, insurance premiums, and on the severance of timber, sand, and gravel. Deductions for payment of Federal taxes would be eliminated by corporate income tax payers, while Federal ground rules would be applied to the oil and gas depreciation allowance.

Maine's governor called for no new taxes, but did recommend that the state get out of the retail liquor business (eliminating state-run stores), and stop allowing certain state employees to retire with full pensions after just 20 years of service.

This year **Maryland** legislators considered and did not enact proposals for a two-year 5% personal income tax surcharge, as well as a hike in the property tax to finance increased spending for education and a cleanup of the Chesapeake Bay. The only significant tax change still to be considered involves a restructuring of the corporate income tax for an added $10 million per year.

The governor of **Massachusetts** recommended a plan to finance the reconstruction of public projects, including highways and bridges, through a new agency called Massbank. His proposal would increase the corporate profits tax rate by an average of about .5%, raising almost $300 million over three years. Massbank would use the funds to guarantee about $1 billion in revenue bonds that would finance the capital improvement projects. As a trade-off for higher corporate tax rates, the governor agreed to restrict the corporate tax to earnings in the United States, eliminating the levy on foreign profits.

Calling for a "zero increase" spending plan with no tax hikes, **Michigan's** governor proposed that the January 1, 1985 date for the expiration of the temporary income tax increase enacted in 1983 be accelerated to October 1, 1984. He argued against a more hasty rollback because it would be "taking chances with the security of Michigan and its people." Another proposal has been submitted to raise personal income tax exemptions from $1,500 to $4,400 and to index exemptions for inflation. There is a grass-roots movement to place on the November ballot a measure (Voter's Choice) to repeal all state and local revenue increases approved since 1983 and to require voter approval or four-fifths approval by a legislative body for future measures.

Urging an overhaul and modernization of the state tax structure, **Minnesota's** governor recommended repeal of the temporary 10% surtax on personal income effective July 1, 1984 (under current law the surtax would drop to 5% on January 1, 1985, and expire June 30, 1985); repeal of the state share of the estate tax; repeal of the unitary approach to taxing corporate income; and the enactment of several business tax incentives to spur international trade.

In **Mississippi**, where a special legislative session in November 1983 hiked the state sales tax rate from 5% to 6%, the governor this year urged legislators to develop a budget requiring no tax raises. However, he did not completely rule out a tax increase if it were necessary to fulfill the state's obligation to provide essential services.

A special 1983 legislative session in **Missouri**, which ended in mid-December, failed to enact tax increases, but did approve a tax acceleration bill. This year proposals will be considered to impose a 10% personal income tax surcharge, raise the corporate income tax rate from 5% to 7%, and increase the corporate franchise tax.

In **Nebraska**, an improving economy and higher tax rates enacted a year ago have combined to generate more revenue than was anticipated leading to an estimated surplus of $100 million in fiscal 1985. Various proposals are afloat that would give back some of recent increases, including reductions in personal and corporate income taxes and a cut in the sales tax rate (coupled with broadening the sales tax base).

New Jersey's governor did not call for tax hikes, but did advocate a 10-year plan to finance transportation projects by issuing $3.3 billion in revenue bonds. The legislature would pledge to appropriate $88 million annually for a decade, to be combined with $30 million per year from increased truck registration fees, and $25 million from tollroad surpluses so as to attract maximum Federal highway aid.

Arguing for an "educational enrichment program," the governor of **New Mexico** proposed a package of tax measures that would have the net effect of raising revenues by $173 million in 1985 and more in later years. Increased revenues would come largely from his proposal to raise the sales tax; partly offsetting were his suggestions for simplifying the personal income tax deduction for taxpayers 65 years old or over and increasing the low-income tax credit.

The governor's budget message in **New York** rejected broad-based tax increases as discouraging economic development, and specifically criticized the unitary tax concept. He did call for a sports betting plan to raise $100 million for public education (the constitutionality of which was challenged), along with a jobs creation tax credit and uniform property tax exemption for veterans. Other issues to be considered this year include raising personal income tax exemptions, and possibly reducing top marginal rates; capping the utility tax; lowering the bank tax; and uncoupling the business and personal income taxes from Federal provisions.

Following the enactment of $770 million in higher taxes last year, **Ohio's** governor told the legislature in January 1984: "I have not come here today to ask for more money or resources." Tax proposals in 1984 are expected to be minimal. There are suggestions to increase the cigarette tax and to exclude social security benefits from taxable income under the state tax. (In November 1983, the voters turned down a proposal that would have revoked all tax increases approved in 1983.)

In **Oklahoma**, where a special session in November 1983 turned down proposals by the governor for $650 million in additional taxes, this year's regular session raised the sales tax rate from 2% to 3%, effective February 15, 1984, through December 31, 1985; hiked the motor fuels tax and truck license fees; and extended sales tax coverage to cigarettes and 3.2% beer.

The governor of **Pennsylvania** proposed lower income taxes for businesses and individuals. The corporate levy would be reduced from 10.5% to 9.5%, and the temporary personal income tax rate hike approved last year would be allowed to expire as scheduled at the end of June 1984. The governor signed into law a bill exempting 4,000 smaller firms from corporate income tax; henceforth, small enterprises will pay at the much lower personal income tax rate of 2.45%.

Proposals in **Rhode Island** would reduce the sales tax rate (from 6% to 4%) and the personal income tax rate (from 26% to 23.8% of Federal tax liability). As a means of financing economic development, however, some increases are being considered: a .063% payroll tax and a 1.2% personal income tax surcharge.

In **South Carolina**, the governor recommended a hike in the sales tax rate from 4% to 5% with revenue earmarked for "quality education." Other proposals would raise the maximum personal income tax deduction allowed for payment of Federal income taxes from $500 to $1,000, and impose a 10% surcharge on sales of alcoholic beverages. A constitutional amendment to limit both taxes and expenditures is up for consideration.

Tennessee's governor recommended a 1¢ increase in the sales tax with the added funds dedicated to improvement of education, along with other tax increases. In February, he signed into law measures that raised the sales tax from 4½% to 5½% from April 1, 1984, through June 30, 1985, but gradually phased out the rate on food sales to zero by June 1, 1987; increased the corporate franchise tax; raised insurance premiums tax rates applicable to many insurers; and reduced the sales tax collection discount allowed to dealers.

In **South Dakota**, the general sales tax would be extended to cigarette sales, but prescription medical equipment would be exempted. Changes would be made in taxation of precious metals. Cigarette excise taxes would rise from 15¢ to 20¢ a pack. A temporary 1¢ increase in the motor fuel tax would be continued indefinitely.

Although **Texas** will have no regular legislative session this year, the governor is expected to call a special session to consider tax hikes to raise additional funds for public education and highways. Proposals likely to be considered are a doubling of the gasoline tax from 5¢ to 10¢ a gallon (or a 10% pump price tax), an average $25 increase in motor vehicle registration fees, and broadening the base of the sales tax. The governor's blue-ribbon select committee on public education is expected to recommend an across-the-board increase in teacher salaries and major reforms in curriculum and other aspects of public education.

In February this year the governor of **Utah** approved four measures, raising the fuel, franchise, net income, and severance tax rates and extending increases in sales tax rates that had been scheduled to expire.

The governor of **Vermont** recommended tax increases and other changes to liquidate the deficit in two years. He asked that the state personal income tax no longer be levied as a percentage of the Federal tax liability, but that a new plan be established whereby the state would use Federal brackets, but apply its own rate schedule. He also proposed increases in corporate income tax rates to a range of 6% to 9% (from the current 5% to 7½%) and an increase in the sales tax rate from 4% to 4½%, along with other changes.

In announcing a budget that would not require either general tax increases or bond issues, **Virginia's** governor called for reduction in the long-term tax burden on nearly every manufacturer in the state. He urged an immediate tax reduction, followed by a constitutional amendment, completely exempting manufacturers' inventories from ad valorem taxation.

Various bills were submitted in this year's **Washington** legislative session to reduce the sales and business and occupation tax rates (some suggestions would tie a lowering of the sales tax levy to the level of state revenues). Other recommendations would repeal a scheduled hike in the motor fuel tax rate, and reduce the severance tax rate on timber.

West Virginia's budget for fiscal 1984-1985 is declared as balanced without tax increases. The governor proposed a constitutional amendment to be placed on the November 1984 ballot to authorize a $600 million bond issue to finance school building construction. Various fiscal measures are under discussion, generally calling for income tax reductions.

Wisconsin's governor proposed a stabilization fund with an initial appropriation of $50 to $75 million, to help tide the state over future fiscal difficulties. Up for consideration are proposals to repeal the 10% personal and corporate income surtaxes nine months before scheduled expiration; substitute a phased-in pick-up or "gap" estate tax for the present inheritance tax; and liberalize the income tax exclusion for capital gains (under present law, 40% of capital gains are taxed).

This year's tax proposals in **Wyoming** involve a proposed optional local 1% retail sales tax which could raise $76 million annually.

5/30/84 R9050-34

TAX FOUNDATION'S MONTHLY VOL. 28, NO. 5 MAY 1984

TAX·FEATURES

Aid to States Up 4% in FY83; NY, CA, PA, IL, TX Lead the Field

The Federal government disbursed $88.8 billion in grants-in-aid to state and local governments in fiscal year 1983, $3.3 billion or 4 percent more than in fiscal 1982, according to Tax Foundation researchers. The 1983 increase followed a $7.0 billion reduction from fiscal 1981 to fiscal 1982, the first decline since the end of World War II. In 1983, the level of grants returned close to the 1980 level.

During the 1970s, grants grew at an average annual rate of 15 percent, Tax Foundation analysis reveals. The recent slowdown in the rate of growth stems largelyfrom the Omnibus Budget Reconciliation Act of 1981 which consolidated many grant programs into larger block grants.

The five largest grant programs are Medicaid, interstate highway construction grants, Aid to Families With Dependent Children, subsidized housing, and general revenue sharing. Together they accounted for $45.3 billion, more than 51 percent of the grants disbursed in 1983. Medicaid grants alone amounted to $18.9 billion, or 21.3 percent of the total. Ten states—New York, California, Pennsylvania, Illinois, Texas, Ohio, Michigan, Massachusetts, Florida, and New Jersey—received more than 54 percent of all grants-in-aid in fiscal 1983, a total of $47.7 billion.

Per capita Federal grants for the U.S. as a whole averaged $381 in 1983. State by state, they ranged from a high of $2,114 in the District of Columbia to $245 in Texas. Other high ranking states were Alaska ($1,029), Vermont ($596), New York ($568), and Montana ($548). At the low end of the scale were Florida ($265), Arizona ($282), Indiana ($282), and Virginia ($304).

The costs of supporting the grant programs fell on the residents of 19 states, whose aggregate Federal tax burdens to support grant programs exceeded the amount of grants received by their respective state and local governments. The 125 million persons residing in these "paying" states bore 57 percent of the tax costs to support grant programs—$50,811 million—while their state and local governments received $41,230 million in Federal grants-in-aid, for an average Federal tax burden per dollar of Federal aid of $1.23. On the other hand, the 108 million residents of the other 31 states and the District of Columbia (the "receiving" states) paid, on the average, 80 cents in Federal taxes for each dollar of Federal grants received by their respective state and local governments—$37,955 million in Federal taxes for $47,536 million in Federal aid.

For the third year in a row, the residents of the Lone

(Continued on page 2)

Congress to Spend 16% More On Itself in Fiscal 1984; $1.7 Billion Total Budget

For all the talk of budget-cutting and sharing the pain of austerity, the U.S. Congress will increase its own budget by nearly 16 percent this year, according to Tax Foundation analysis. Congress will spend nearly $1.7 billion on itself and its agencies in fiscal year 1984, based on current Budget estimates. That is $230 million more than the Senate, House of Representatives, and related agencies cost taxpayers last year, say economists at the Washington-based tax watchdog organization. The 1985 Budget presented in February of this year reports estimated outlays for Congressional activities in 1984 at $1,667 million, compared with actual spending of

(Continued on page 4)

THIS ISSUE:

PAGE 1:
Grants-in-Aid
Cost of Congress
PAGE 3:
Local Revenues

Outlays for the Legislative Branch of the Federal Government by Unit
Selected Fiscal Years 1970-1984[a]
(Thousands)

Unit	1970	1975	1980	1983	1984
Total	$343,147	$726,191	$1,217,985	$1,437,292	$1,667,079
Congress, total	179,159	326,214	581,543	722,680	799,634
Senate	57,585	102,237	183,890	227,439	262,759
House of Representatives	108,279	178,988	324,569	399,800	452,525
Joint activities	13,295	44,989	73,084	95,441	84,350
Legislative agencies, total	163,988	399,977	636,442	714,552	867,375
Architect of the Capitol	18,797	50,984	89,496	90,572	129,669
Botanic Garden	620	998	1,583	2,080	2,348
Congressional Budget Office	—	—	12,101	13,897	16,431
General Accounting Office	69,857	125,941	201,192	251,140	271,162
Government Printing Office	34,141	121,436	115,747	87,935	105,031
Library of Congress	49,804	100,795	192,740	252,138	321,193
Office of Technology Assessment	—	2,723	11,131	12,881	14,665
U.S. Tax Court	2,972	11,028	9,703	12,838	15,971
Other	—	—	13,675	910[b]	849
Deductions for offsetting receipts	−12,203	−15,370	−10,926	−9,779	−9,874

[a]Data for 1984 are estimates from the Budget presented in February 1984.
[b]Decline from 1980 reflects primarily the phasing out of the Temporary Commission on Financial Oversight of the District of Columbia, for which fiscal 1980 outlays were $11,622 thousand.
Source: Office of Management and Budget.

Federal Grants-in-Aid to State and Local Governments and Estimated Federal Tax Burden for Federal Grants
Fiscal Year 1983

State	Grants[a] (millions)	Percent of total tax burden	Estimated tax burden for grants[b] (millions)	Tax burden per dollar of aid Amount	Rank
TOTAL U.S.	$88,766.5	100.00	$88,766.5	$1.00	—
Alabama	1,433.7	1.24	1,101.4	.77	38
Alaska	483.4	.32	287.7	.60	45
Arizona	830.7	1.10	977.1	1.18	11
Arkansas	896.8	.68	600.7	.67	44
California	9,140.1	11.84	10,512.0	1.15	13
Colorado	1,015.6	1.48	1,312.8	1.29	4
Connecticut	1,190.4	1.85	1,644.2	1.38	2
Delaware	306.8	.29	258.7	.84	31
Florida	2,815.6	4.38	3,887.6	1.38	3
Georgia	2,106.6	2.01	1,782.2	.85	30
Hawaii	456.7	.43	382.5	.84	33
Idaho	358.7	.31	275.9	.77	37
Illinois	4,190.2	5.64	5,008.1	1.20	8
Indiana	1,610.4	2.16	1,917.7	1.19	9
Iowa	980.2	1.13	1,004.8	1.03	18
Kansas	761.1	1.09	966.3	1.27	6
Kentucky	1,487.8	1.20	1,064.3	.72	41
Louisiana	1,695.5	1.78	1,582.1	.93	23
Maine	574.9	.37	331.4	.58	48
Maryland	1,811.1	2.08	1,848.8	1.02	19
Massachusetts	2,897.5	2.74	2,435.5	.84	32
Michigan	3,611.8	3.76	3,340.5	.92	25
Minnesota	1,762.5	1.75	1,553.4	.88	28
Mississippi	1,074.7	.72	637.8	.59	46
Missouri	1,671.7	1.95	1,728.1	1.03	17
Montana	445.4	.30	263.4	.59	47
Nebraska	574.1	.62	547.6	.95	21
Nevada	338.2	.42	374.3	1.11	14
New Hampshire	351.1	.41	363.9	1.04	16
New Jersey	2,811.5	4.07	3,608.4	1.28	5
New Mexico	533.7	.48	423.0	.79	35
New York	10,006.7	8.33	7,392.7	.74	39
North Carolina	1,875.0	2.00	1,779.0	.95	22
North Dakota	353.0	.27	241.1	.68	43
Ohio	3,641.3	4.48	3,976.7	1.09	15
Oklahoma	1,071.2	1.40	1,246.7	1.16	12
Oregon	1,068.1	1.03	912.0	.85	29
Pennsylvania	4,815.6	5.05	4,480.2	.93	24
Rhode Island	486.2	.40	352.9	.73	40
South Carolina	1,109.3	1.00	887.7	.80	34
South Dakota	357.0	.23	201.9	.57	49
Tennessee	1,581.5	1.58	1,404.6	.89	27
Texas	3,801.5	7.33	6,509.9	1.71	1
Utah	576.3	.51	453.2	.79	36
Vermont	312.0	.18	161.5	.52	50
Virginia	1,681.8	2.40	2,131.0	1.27	7
Washington	1,516.4	2.02	1,792.9	1.18	10
West Virginia	839.4	.65	579.4	.69	42
Wisconsin	1,902.7	1.91	1,694.7	.89	26
Wyoming	236.1	.26	229.9	.97	20
District of Columbia	1,317.1	.36	316.4	.24	51

[a]Excludes shared revenues and payments in lieu of taxes; includes General Revenue Sharing and trust fund aids.
[b]The total tax burden for grants is assumed to equal grant payments.
Source: U.S. Department of Commerce; Bureau of the Census, and Tax Foundation computations.

(FEDERAL GRANTS-IN-AID, from page 1)

Star State paid the highest tax premium for the grants. Each dollar of grants cost Texans $1.71 in Federal taxes. Other top paying states were Connecticut ($1.38), Florida ($1.38), Colorado ($1.29), and New Jersey ($1.28).

At the low end, each dollar of Federal grants cost the residents of the nation's capital 24 cents in Federal taxes. Other states in which favorable balances were recorded were Vermont (52 cents), South Dakota (57 cents), Maine (58 cents), and Montana (59 cents).

Compared to fiscal year 1982, the Federal tax costs of grants rose in 17 states and the District of Columbia, fell in 30 states, and remained the same in three states (Colorado, Louisiana, and Nevada). The largest increase in the ratio of Federal tax burdens per dollar of aid received occurred in Texas, where the cost rose by 12 cents, from $1.59 to $1.71. In New Mexico, the increase was 10 cents—from 69 cents to 79 cents.

Conversely, the residents of Wyoming (-19 cents), Montana (-17 cents), and North Dakota (-15 cents) experienced reductions in the cost per dollar of grants in 1983 as compared to 1982. Grants-in-aid increased by 23.6 percent in North Dakota, 24.3 percent in Wyoming, and 27.3 percent in Montana. Other states which experienced significant decreases in Federal tax costs per $1.00 of Federal aid were Iowa (15 cents), Nebraska (13 cents), and Oregon (12 cents). Both Wyoming and Nebraska changed their status from paying to receiving states in 1983. Maryland, on the other hand, went from a receiving state to a paying state.

In addition to direct costs in Federal taxes, for each dollar of grants received, the residents must also pay state and local taxes to meet the matching funds required by most Federal grant programs. The Office of Management and Budget estimates that state and local governments must put up out of their own funds approximately 43 cents for each $1.00 of aid received in fiscal 1983. This is in addition to any administrative or overhead costs that recipient governments must bear.

The Tax Foundation method for deriving the Federal tax burdens borne by the residents of each state is designed to show where tax dollars actually originate, rather than where they are collected. The data on grants-in-aid are shown as reported by the Bureau of the Census.

The accompanying table provides estimates of the grants-in-aid received by state and local governments and the associated Federal tax burdens borne by the residents to support the overall grant programs. Further details are provided in the "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1983," available from the Tax Foundation.

Monthly Tax Features

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Localities Becoming More Self-Supporting

The start of the 1980s may signal a return to greater self-sufficiency on the part of local governments in financing their general-purpose programs, according to Tax Foundation economists. In fiscal year 1982, latest reported, local units raised $163.2 billion in general revenue, or 58.5 percent of the total $279.2 billion they received from all sources. The 1982 increase in locally raised funds from the previous year was $17 billion, or 12 percent. This rise followed annual increases of 12 percent in 1981 and 11 percent in 1980.

In sharp contrast, the 1982 increase in local general revenues attributable to state and Federal governments combined was only $4.5 billion, or 4 percent. State grants, at $95.0 billion in 1982, were up from 1981 by $6.0 billion, or 7 percent. On the other hand, direct Federal aid to local governments, $20.9 billion in 1982, declined by $1.5 billion, or 7 percent, from the previous year, Tax Foundation analysis reveals.

Fiscal 1982 was the third consecutive year in which local governments had evidenced growing self sufficiency in their financial operations. These units increased their own share of general revenues from a low of 55.3 percent in 1979 to 55.9 percent in 1980 and 56.7 percent in 1981. The 58.5 ratio in 1982 was the highest in nearly a decade (since 1973).

If this recent trend continues, it will mark a signifi-

(Continued on page 4)

"Fiscal 1982 was the third consecutive year in which local governments had evidenced growing self-sufficiency in their financial operations."

THE FRONT BURNER

"Ave Atque Vale"

"Hail and farewell!" The traditional greeting of the Romans, to whom our culture traces its basic respect for law and civic good order, seems somehow appropriate in considering the departure of Congressman Barber B. Conable, Jr., Ranking Minority Member on the House Ways and Means Committee, from public office. He is the kind of citizen/legislator on whom the ideals of public office sit well. He would have made a good Roman Senator.

On February 6, Mr. Conable announced that he would not seek election to an eleventh term in the United States Congress, declaring that twenty years was "long enough." How characteristic it was of the man to reveal his departure from public life in a manner as gracious and self-effacing as the way in which he exercised his time in office.

The Representative of the Thirtieth District of New York State—basically, the rural communities around Rochester and the Genessee River valley—has long enjoyed a reputation as one of the brightest and most able legislators in the House. The bipartisan statements following his announcements bore out this claim.

Representative Dan Rostenkowski of Illinois, Chairman of the Ways and Means Committee, called Mr. Conable "a remarkable intellectual and moral force." Vice President George Bush described him as "one of the most sane and able men in Congress." Senator Bob Dole of Kansas stated what some have seen as at least a partial explanation for Mr. Conable's decision not to seek reelection: "As far as intellect is concerned, Barber has it to spare. What he doesn't have are votes."

Mr. Conable's own explanation is much more modest, delivered with the self-deprecating wit for which he is well known. After recalling that he had promised his family and friends, when he first took his seat in Congress in 1965, that he would not become a professional politician wedded to Washington, he told reporters: "I felt after 20 years my amateur status had become in danger."

On November 28, 1979, Tax Foundation's Chairman Thomas M. Macioce, President of Allied Stores Corporation, presented Congressman Conable with the Foundation's Distinguished Public Service Award. In making the presentation, Mr. Macioce praised the Congressman's outstanding record of public service and explained that the award was being made, "in recognition of his distinguished congressional service, his deep commitment to the principles of sound government, and his outstanding leadership in the effort to further sound fiscal and taxation policy." Those words are as true today as they were five years ago.

Whatever Mr. Conable's reasons for retiring, the fact of his retirement saddens many people in a town not noted for its sympathy toward those who willingly lay down the reins of power and influence. The United States Congress is a mirror of the nation. It has its share of scoundrels, a vast majority of average, garden variety legislators—and a few members in each generation who achieve excellence. By virtually unanimous agreement, Barber B. Conable, Jr., fits into the ranks of the excellent. He will be sorely missed. And it is, indeed, with mixed emotions that we bid him, "Hail and farewell." *Ave atque vale.*

(LOCAL GENERAL REVENUES from page 3)

cant reversal of a long-time pattern, according to the Tax Foundation. For most of the 20th century to date, local governments have come to depend more and more on revenues raised by higher levels of governments. At the turn of the century, localities raised over 93 percent of their general revenues, a figure which had declined to 62.3 percent by 1972 and to a recent low of 55.3 percent in 1979.

"Property taxes remain the largest single source of local general revenue."

The introduction of Federal general revenue sharing in the early 1970s provided additional momentum for the ongoing decline in local governments' share in raising their own funds. Local governments now receive $4.6 billion annually in general revenue sharing funds.

While the relative importance of the property tax in local finance continued a long-time declining trend during the 1970s, recent years indicate what may be a stabilization of its current role. The share of local general revenue derived from property taxes slid from 60 cents just before World War II to a low of 28 cents in 1980. It has remained at about that level for the past three years. Local governments collected $78.8 billion in property taxes in fiscal 1982, an increase of $6.8 billion or 9 percent from 1981. Property taxes remain the largest single source of local general revenue and account for 76 percent of all local tax revenue.

It is noteworthy that local governments increased their own-source general revenues in 1981 and 1982 at rates well in excess of the states, in contrast to trends during most years in the 1970s. From 1980 to 1982 local own-source funds grew by an average annual 12.0 percent, while the similar category of state revenues rose by only 10.3 percent. Previously, from 1972 to 1980, local revenues had grown by 8.9 percent annually on average, and state revenues by 11.5 percent.

The table below provides additional details on sources of local government general revenue.

(COST OF CONGRESS from page 1)

$1,437 million in fiscal year 1983.

Increases "adopted" this year include an automatic 3.5 percent pay raise for Senators and Representatives, scheduled under 1975 law to give the members of Congress the same cost-of-living increases as those received by white-collar Federal employees. (Congress would get an additional .5 percent cost-of-living increase, retroactive to January 1, under a measure awaiting the President's signature at press time.)

In 1983, Senators voted themselves a 15 percent pay raise, matching a boost that the House voted for its members in 1982. The legislation provided that starting January 1, 1984, members of the Senate cannot receive more than 30 percent of their salary in honoraria for lectures, articles, or special appearances. As of January 1, 1984, the salary of a U.S. Senator or Representative was $72,200 a year.

This year members' compensation will include just over $1 million that taxpayers will have to put into the Social Security program to cover the "employer" contribution for members of Congress who entered the system January 1, 1984, under the Social Security Amendments of 1983.

"Congress alone will cost the taxpayers $800 million in fiscal 1984—$263 million for the Senate, $453 million for the House of Representatives, and $84 million for joint activities."

Congress alone will cost the taxpayers $800 million in fiscal 1984—$263 million for the Senate, $453 million for the House of Representatives, and $84 million for joint activities. Another $867 million will be spent by various legislative agencies, up from $715 million in 1983—a rise of more than 21 percent in a single year. These agencies include, among others, the Architect of the Capitol, General Accounting Office, Government Printing Office, and Library of Congress.

Legislative salaries make up a substantial share of all costs of Congress. As of September 1983 (latest period reported) there were 39,167 persons on the Legislative Branch payroll, including members of Congress.

Percentage Distribution of Local General Revenue by Source
Selected Fiscal Years 1902-1982

Year	Amount[a] (millions)	Percent of total						
		From own sources					Intergovernmental	
		Total	Taxes			Charges and miscellaneous	From state	From Federal government
			Total	Property	Other			
1902	$ 854	93.4	82.4	73.1	9.3	11.0	6.1	.5
1913	1,637	94.1	79.9	72.8	7.1	14.2	5.6	.4
1922	3,866	91.7	79.4	76.9	2.5	12.3	8.1	.2
1932	5,690	85.7	75.1	73.1	2.0	10.6	14.1	.2
1940	6,939	72.2	64.8	60.1	4.7	7.3	23.8	4.0
1950	14,014	68.4	57.0	50.2	6.8	11.4	30.1	1.5
1960	33,026	69.4	54.7	47.8	5.9	14.6	28.8	1.8
1965	47,527	68.1	52.8	45.9	6.9	15.2	29.5	2.4
1969	71,943	63.7	48.3	41.3	7.0	15.4	33.1	3.1
1970	80,917	63.5	48.0	40.7	7.3	15.5	33.3	3.2
1971	91,963	62.5	47.2	39.9	7.3	15.3	33.8	3.7
1972	105,243	62.3	47.3	39.5	7.8	15.0	33.4	4.3
1973	118,392	59.6	44.8	37.1	7.7	14.8	33.8	6.7
1974	131,434	58.4	43.0	35.3	7.7	15.4	33.9	7.8
1975	146,307	57.7	41.9	34.2	7.7	15.7	34.9	7.4
1976	162,931	57.2	41.5	33.7	7.8	15.7	34.5	8.3
1977	179,045	57.1	41.8	33.7	8.1	15.3	33.7	9.2
1978	194,784	56.8	41.3	32.9	8.4	15.6	33.2	10.0
1979	211,987	55.3	38.0	29.5	8.5	17.3	35.0	9.7
1980	232,452	55.9	37.2	28.2	9.0	18.8	35.0	9.1
1981	257,180	56.7	36.9	28.0	8.9	19.8	34.6	8.7
1982	279,203	58.5	37.1	28.2	8.9	21.3	34.0	7.5

[a]General revenue represents total revenue less utility, liquor store, and insurance trust revenue.
Source: Department of Commerce, Bureau of the Census; percentage computations by Tax Foundation.

R9050-3

TAX FOUNDATION'S MONTHLY VOL. 28, NO. 6 JUNE-JULY 1984

TAX·FEATURES

ERTA's Tax Relief No Panacea For Top Earners

Family's Buying Power Cut 7.3% from 1974 to 1984 By Inflation and U.S. Taxes

Inflation and direct Federal taxes have eroded the prototypical U.S. family's purchasing power, measured in constant 1974 dollars, by $801, according to analysts at the Tax Foundation. This family—one earner employed full-time, year-round, married, with two dependent children—has 7.3 percent less purchasing power in 1984 than it had in 1974. And the erosion has occurred, say economists at the Washington-based tax watchdog organization, despite the recent slowing of inflation and reductions in the individual income taxes.

On the plus side, this downward trend in the family's real income—after Federal taxes—has been reversed in recent years, Foundation economists say. Real purchasing power of the family had declined every year from 1976 to 1981. Because of the rate reductions in the Economic Recovery Tax Act of 1981 (ERTA) and the recent drop in the rate of inflation, real purchasing power after Federal taxes has risen since 1982. It is estimated that the family's purchasing power, in constant dollars, will be 5.6 percent higher this year than it was in 1981—although it is still lower than it was 10 years ago.

The combined effects of ERTA's income tax cut and social security tax increases reduced the family's direct Federal taxes in 1984 by a net of $605 since 1980. The

(Continued on page 2)

Top earners have not benefited greatly under the Economic Recovery Tax Act of 1981 (ERTA), contrary to some earlier forecasts, say economists at the Tax Foundation. Even with sharp reductions in the highest marginal rates, more of the Federal income tax burden has apparently been shifted to them.

Taxpayers in the top 5 percent of income levels in 1982, according to researchers at the Washington-based tax watchdog organization, saw negligible decreases in their bills with reductions averaging .02 percent. All other taxpayers combined enjoyed tax reductions averaging 3.9 percent that year.

For all income groups, the overall tax reduction in 1982 averaged 2.5 percent per return, and the effective tax rate, measured against taxable income, fell from 20.3 percent in 1981 to 19.0 percent in 1982. Although ERTA provided an 8.75 percent across-the-board tax cut, the effective rate was thus reduced by only slightly more than 1 percentage point. Tax Foundation analysts attribute these results to the effects of rising incomes and the progressive rate structure.

The Federal individual income tax bill for tax year 1982 came to $278.5 billion, or $7.3 billion (2.6 percent) lower than 1981's all-time high of $285.8 billion. Except for increasing relative burdens at the very highest income levels, this overall tax reduction resulted in only minor changes in the share of total tax burdens paid by most American income groups.

Over one-third of the 1982 tax bill was shouldered by the 4.7 million taxpayers in the top 5 percent income group. The average tax for this group dropped from $21,358 to $21,354, down .02 percent.

The top 10 percent of income earners—those earning $39,792 or more in 1982—continued to pay almost 50 percent of the tax bill. This group, comprising 9.5 million returns, had an average tax bill of $14,355 in 1982, down about 1.1 percent from 1981. Their computed share of the tax bill was 48.7 percent in 1982, up from 48.0 percent in 1981.

Over 90 percent of the 1982 total was paid by the top 50 percent of income earners—those getting $14,500 or more. Although their 92.6 per-

(Continued on page 2)

Federal Income Taxes Paid by High- and Low-Income Taxpayers

1981 and 1982

Adjusted gross income class	Income level		Percent of tax paid		Average tax	
	1981	1982	1981	1982	1981	1982
Highest 5 percent	$48,598 or more	$49,633 or more	35.3	36.2	$21,358	$21,354
Highest 10 percent	38,733 or more	39,792 or more	48.0	48.7	14,519	14,355
Highest 25 percent	25,768 or more	26,992 or more	72.3	72.2	8,750	8,513
Highest 50 percent	14,029 or more	14,500 or more	92.6	92.6	5,599	5,458
Lowest 50 percent	14,028 or less	14,499 or less	7.4	7.4	450	438
Lowest 25 percent	6,578 or less	6,907 or less	.7	.8	83	96
Lowest 10 percent	2,725 or less	2,796 or less	(a)	.1	15	41

[a]Less than .05 percent.
Source: Tax Foundation computations based on Treasury Department data.

THIS ISSUE:

PAGE 1:
High/Low Earners Buying Power

PAGE 3:
State Taxes "Front Burner"

PAGE 4:
Govt. Spending

(FAMILY'S BUYING POWER, from page 1)

family paid $752 less in income taxes than it would have paid under pre-ERTA tax rates. On the other hand, its social security taxes rose $147 as the tax rate went from 6.13 percent to 6.7 percent.

From 1974 to 1984, while pre-tax income was rising by 98 percent, from $13,004 to $25,700, direct Federal taxes were climbing by 105 percent, from $2,028 to $4,150. Income tax liabilities went from $1,267 to $2,428, an increase of $1,161 or 92 percent. Social security taxes jumped from $761 to $1,722, or 126 percent, as increasing amounts of revenues were needed to pay for the higher benefits resulting from the indexing of those benefits to the Consumer Price Index (CPI) as well as the increase in the number of beneficiaries.

While the increase in direct Federal taxes reduced the family's gain as measured in nominal dollars by $2,122, its gain, before taking inflation into account, was still $10,574, or 96 percent for the decade. As a proportion of the family's income, direct Federal taxes ranged from a low of 14.1 percent in 1975 to a high of 17.2 percent in 1981. In 1984, these taxes are estimated to be 16.1 percent of the family's income.

For the period 1974 to 1984, the price level, as measured by the CPI, more than doubled, bringing the purchasing power of each dollar down to 47 cents, in 1974 dollars. The combination of rising prices and a rising tax bite diminished the purchasing power of the family by 7.3 percent for the decade.

The table below provides further details.

Median Family Incomes Before and After Direct Federal Taxes and Inflation

1974-1984

Year	Median family income[a]	Direct Federal taxes: Income tax[b]	Direct Federal taxes: Social security	Direct Federal taxes: Total	After-tax income: Current dollars	After-tax income: 1974 dollars[c]
1974	$13,004	$1,267	$ 761	$2,028	$10,976	$10,976
1975	14,156	1,172	825	1,997	12,159	11,145
1976	15,016	1,388	878	2,266	12,750	11,049
1977	15,949	1,466	933	2,399	13,550	11,025
1978	17,318	1,717	1,048	2,765	14,553	11,000
1979	19,048	1,881	1,168	3,049	15,999	10,869
1980	20,586	2,143	1,262	3,405	17,181	10,282
1981	21,462	2,267	1,427	3,694	17,768	9,636
1982	23,036	2,342	1,543	3,885	19,151	9,786
1983[d]	24,140	2,296	1,617	3,913	20,227	10,013
1984[d]	25,700	2,428	1,722	4,150	21,550	10,175

[a]Median income for all families with one earner employed full-time, year-round.
[b]Married couple filing joint return, two dependent children.
[c]Adjusted by Consumer Price Index of the Bureau of Labor Statistics.
[d]Estimated by Tax Foundation.
Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Treasury Department, Internal Revenue Service; and Tax Foundation computations.

Monthly Tax Features

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(HIGH/LOW EARNERS, from page 1)

cent share of the 1982 Federal individual income tax bill was precisely the same as in 1981, their average tax of $5,458 dropped 2.5 percent.

The lower 50 percent of earners—those with income of $14,499 or less in 1982—paid only 7.4 percent of the Federal income tax bill in both years. Their average 1982 taxes dropped 3.1 percent, from $450 to $436.

Earners in the lowest 25 percent income group—those making $6,907 or less—paid just 0.8 percent of the Federal income taxes in 1982. Their average tax of $96 per return was up $13 from the previous year.

The average tax for all taxpayers in 1982 was $2,922, down from $3,000 in 1981, a decrease of just over 2.5 percent, according to Tax Foundation economists.

The number of millionaires jumped markedly by almost 50 percent between 1981 and 1982. In 1982, 8,203 persons reported incomes of $1,000,000 or more—2,691 more than in 1981. These millionaires paid an average tax of $844,339 in 1982 (49 percent of taxable income).

Adjusted gross income (AGI) reported on 1982 tax returns totaled $1.85 trillion, an increase of 3.9 percent from 1981. Wages and salaries, which make up over 80 percent of AGI, rose by 5.1 percent, gross interest by 12.4 percent, gross dividends by 11.8 percent, and capital gains (less losses) by 9.2 percent from 1981 to 1982.

ERTA provisions affecting 1982 tax yields included a cumulative 10 percent across-the-board reduction in rates (8.75 percent in 1982 and 1.25 percent in 1981); a reduction in the top marginal rate on all income from 70 percent to 50 percent on January 1, 1982, bringing the maximum tax on capital gains down from 30 percent to 20 percent; liberalized rules for individual retirement arrangements (IRAs); and the introduction of the two-earner, married couple, deduction.

Returns for tax year 1982 reflected the second stage of the ERTA reduction. Further tax cuts becoming effective after 1982 include cumulative across-the-board rate reductions (from pre-ERTA levels) reaching 19 percent in 1983 and 23 percent in 1984; and inflation adjustments in the income tax brackets, the zero bracket amounts, and personal exemptions beginning in tax year 1985.

The table on page 1 provides further details.

Currently Available

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1983," April 1984, 10 pp.

Facts and Figures on Government Finance—1983, 22nd Biennial Edition, 364 pages, $20.00.

Consumption Tax: An Idea Whose Time is Coming, 16 pp., $5.00.

Fiscal Policy Forum, "At Issue: Tax Compliance," Spring 1984, 8 pp.

The Reagan Budget: 1985-1989, by E.M. Watters, March 1984, 6 pp.

"Taxes, Spending and Growth—Seeking a Balance," Proceedings of Tax Foundation's 35th National Conference, 31 pages, $8.00.

Please include $1.00 for postage and handling on all orders.

Growth of State Taxes Smallest in 25 Years

State taxes continued to rise in fiscal year 1983, as they have every year on record, but the year's advance was the smallest in the last 25 years.

Fiscal 1983 collections of state general taxes (i.e., excluding unemployment levies) totaled $171.4 billion, up $8.8 billion, or 5 percent, from $162.6 billion a year earlier. The percentage gain was the smallest reported since 1958, when state taxes rose by less than 3 percent. In the ensuing years, through fiscal 1982, annual gains had averaged more than 10 percent.

The slower growth in 1983, primarily a result of the recession, occurred despite extensive efforts of the states to shore up sagging revenues by statutory tax hikes in the last three years, say Tax Foundation analysts.

The latest year's experience notwithstanding, state taxes have grown significantly over the past decade. Fiscal 1983 revenues were up by $103.3 billion, or 152 percent, from the $68.1 billion collected ten years earlier. The decade's advance paralleled the concurrent rise in gross national product (also 152 percent), but fell short of the increase in personal income (157 percent).

For further information and a state-by-state comparison of per capita tax levels in 1973 and 1983, including the percentage distribution of the states' 1983 taxes by major source, contact the Tax Foundation at One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005 (202/822-9050).

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"The Pickoff Play"

The pickoff play isn't limited to baseball. It has been used very successfully in recent years by tax writers on both sides of the Capitol and both sides of the aisle. ERTA—the Economic Recovery Tax Act of 1981—gave the nation the most significant, capital-formation oriented tax legislation since the 1963 Kennedy round of tax cuts.

ERTA was no fluke. The bill, with its emphasis on savings, R&D, and investment in plants and capital equipment had been in the works for about five years. However, most of the labor was carried on informally, behind the scenes, away from the glare of TV lights and the competing pressures of interest groups.

ERTA's basic approach to tax policy was sound—and bipartisan. Then, when the lights came on and the special interests entered the picture, a bidding war erupted, with Democrats and Republicans vying to see who could fatten the package most. Then came the severe recession into which the nation soon plummeted, as the American people paid for the sins of a generation of give-aways.

Panicked by the combination of reduced tax revenues and a severe economic downturn, the elected leadership gave us TEFRA, the Tax Equity and Fiscal Responsibility Act of 1982. In no sense either equitable or fiscally responsible, TEFRA was a revenue grab, pure and simple, because Congress was unwilling and/or unable to deliver on the cuts promised the year before. In fact, Congress eventually was shown to be unwilling or unable to deliver on the cuts which were promised as part of TEFRA. Early talk was of $3 in spending cuts for every $1 in tax hikes—although this has subsequently been denied.

Given the usual shell game legislative committees play with revenue estimates, appropriations, authorizations, and interest and inflation rate projections, and so on, it is virtually impossible to document this 3-for-1 pledge as TEFRA flowed through the congressional pipeline in 1981-82. What can be documented is that Congress decided that almost $100 billion needed to be raised, and that targets of opportunity were picked off one at a time until that dollar amount was reached.

The only thing deliberative or rational in the formulation of TEFRA was the way in which Congress played the various elements of the business community against one another in a successful effort to prevent resistance to the gutting of ERTA.

Now in 1984 comes the so-called down-payment on the deficit. Once again, we hear of a quid-pro-quo: roughly a two-for-one pledge of spending cuts for tax hikes. Aside from the fact that this coupling of taxes and outlays starts us on a dangerous path of yoking every spending reduction to a tax increase without the increase even having to be justified, there is another procedural problem. A tax increase is forever, whereas the special appropriation process gives Congress or any Administration plenty of opportunities to evade commitments to reduce spending. This, we submit, is a dangerous precedent indeed.

ERTA came into being because the business community stood united, four-square behind comprehensive, long-range tax planning. TEFRA—and this year's as yet unnamed assemblage—have come into being because once again the tax writers have proven their ability to use short-term tax advantages to fragment the long-term interests of the private sector. In short, they are masters of the pickoff play. Only there's much more at stake here than a baseball game.

"ERTA came into being because the business community stood united, four-square behind comprehensive, long-range tax planning."

Governments Now Spending $16,652 Per U.S. Family

"In the past seven years, total government spending has more than doubled, rising from $680.3 billion in 1977 to $1,411.7 billion in 1984."

Federal, state, and local governments will spend $6,011 for every person in the United States, or $16,652 for each U.S. household in the current fiscal year, according to Tax Foundation estimates. Total outlays will top $1.4 trillion.

Compared to last year, fiscal 1984 spending will rise by an estimated $96.5 billion, or 7.3 percent, Tax Foundation economists say. Federal spending is expected to increase by $65 billion, or 7.6 percent, while state-local outlays are expected to grow by $31.5 billion, or 6.8 percent.

The Federal government accounts for about 65 percent of total public spending ($917.2 billion). Since 1950, the Federal share of the rising public expenditure total has remained fairly constant. Except for the period of the Korean War, when it accounted for more than 70 percent of all spending, the Federal share has ranged from a high of 69.8 percent in 1954 to a low of 60.7 percent in 1972.

In the past seven years, total government spending has more than doubled, rising from $680.3 billion in 1977 to $1,411.7 billion in 1984. During this period, Federal spending has risen by 113 percent, while state and local spending from their own sources has risen by 98 percent.

During the 1950s and 1960s, government spending grew at an annual average rate of about 8 percent. During the 1970s, the rate accelerated to 11.2 percent annually. For the first four years of the 1980s, the rate has dropped back slightly to about 10.2 percent per year.

On a per capita basis, government spending is projected to rise by 93 percent from 1977 to 1984, from $3,111 to $6,011. Since the number of households is growing more rapidly than the population as a whole, per household spending will rise by 81.5 percent, from $9,176 to $16,652 during this period.

Ever since 1950, spending by governments has tended to outpace growth in the overall economy, as measured by Gross National Product (GNP). Total government expenditures moved up from 21.3 percent of GNP in 1950, to 26.9 percent in 1960, 31.6 percent in 1970, and to 35.4 percent in calendar year 1983. Over the past 13 years, the state-local share of this spending has declined slightly in relation to GNP, from 11.0 percent in 1970 to 10.4 percent in 1983. On the other hand, Federal outlays have risen from 20.6 percent of GNP in 1970 to 25.0 percent in 1983, the latest year reported.

The table below provides additional details on Federal, state, and local government expenditures.

Federal, State, and Local Government Expenditures[a]

Selected Fiscal Years 1950-1984

Fiscal year	Amount (billions)			Total expenditures	
	All governments	Federal	State and local	Per household	Per capita
1950	$ 70.3	$ 44.8	$ 25.5	$ 1,614	$ 466
1960	151.3	97.3	54.0	2,866	847
1965	205.7	130.1	75.6	3,581	1,067
1970	333.0	208.2	124.8	5,252	1,643
1975	560.1	340.5	219.6	7,875	2,612
1976	625.1	389.9	235.2	8,579	2,886
1977	680.3	430.6	249.7	9,176	3,111
1978	745.4	477.8	267.6	9,804	3,373
1979	832.4	535.7	296.7	10,764	3,726
1980	958.6	615.4	343.2	11,867	4,243
1981	1,109.8	717.4	392.4	13,474	4,859
1982	1,231.4	794.7	436.7	14,743	5,341
1983[b]	1,315.2	852.2	463.0	15,672	5,651
1984[b]	1,411.7	917.2	494.5	16,652	6,011

[a]Grants-in-aid are counted as expenditures of the first disbursing unit.
[b]Estimated by Tax Foundation.
Source: Basic data from U.S. Department of Commerce, Bureau of the Census; computations by Tax Foundation.

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TAX·FEATURES

TF's Tax Index Jumps 17.2% Outpacing Economic Growth Rate

Boosted by sharply rising social security and corporate income taxes, the Tax Foundation's Tax Index for the first quarter of 1984 moved up at an annual rate of 17.2 percent from the previous quarter, outpacing a widely heralded hike of 14.9 percent in current dollar gross national product (GNP).

The latest rise in the Tax Index, to a new peak of 472.0 (1967 = 100), meant that Federal, state, and local governments were collecting taxes in the first quarter 1984 at an annual rate of more than $1 trillion. Both Federal and State-Local Indexes reached new highs in the first quarter. The Federal Tax Index stood at 454.2 (reflecting $673 billion in tax receipts at an annual rate), while the State-Local Index for the first time moved beyond the 500 level, to 509.1 (mirroring annualized re-

(Continued on page 2)

U.S. Deficit Estimates Lowered But Interest Costs Climb

Concerns about long-term Federal finances were hardly assuaged in mid-August by a new barrage of official budget projections extending out to 1989, according to Tax Foundation analysts. The Office of Management and Budget (OMB) said that by fiscal year 1989 the Federal budget deficit could be as low as $21 billion (based on high-growth assumptions, with some recommended policy changes) or as high as $229 billion (low-growth assumptions).

Shortly before, the Congressional Budget Office (CBO) reported that, absent any policy initiatives and with less optimistic assumptions about future interest rates and economic growth than those of OMB, the budget deficit would reach $263 billion by 1989.

While there is little similarity between the OMB and CBO projections in the out years (i.e., beyond 1985), one common note of accord was sounded. As a result of better economic performance so far in 1984, aided by somewhat modest Congressional actions to shave forthcoming deficits, the fiscal outlook for the near term is better than was envisaged earlier this year. OMB, for example, now estimates the fiscal 1984 deficit (budget and off-budget, under current policies) at $187.1 billion, down from $203.6 billion estimated last February, and the fiscal 1985 deficit at $190.1 billion, down from $225.6 billion earlier.

Even so, the near-term improvement provides little immediate comfort to a Treasury that is rapidly bumping up against its legal borrowing capacity, nor to taxpayers concerned about rising claims on their tax dollars, say Tax Foundation economists.

Since the current fiscal year began, Congress has approved three increases in the debt ceiling, to allow the Treasury to pay the bills for programs previously written into law. Last November, the debt ceiling was raised by $101 billion to $1.490 trillion. In May of this year, there was another $30 billion hike to last until June—putting the interim ceiling at $1.520 trillion. Again in late June another law raised the limit by $53 billion, setting a new ceiling of $1.573 trillion.

In August, the Administration put forth another proposal to increase the public debt ceiling—to either $1.589 trillion, the amount needed to cover Treasury fi-

(Continued on page 2)

THIS ISSUE:

PAGE 1:
Tax Index
Federal Deficit

PAGE 3:
Govt. Spending

PAGE 4:
Govt. Revenues

Tax Index and Related Measures
Annually, and Quarterly at Seasonally Adjusted Annual Rates, 1967 = 100
Selected Periods, 1970 to 1984

Calendar year and quarter	Tax Index			Output Index[a]		
	Total	Federal	State and local	Current prices	Constant prices	Price Index[b]
Annually						
1970	132.2	127.5	142.1	124.2	107.3	115.7
1975	204.3	191.0	232.1	193.8	122.0	158.8
1976	234.0	220.7	261.7	214.9	128.4	167.4
1977	263.1	249.7	291.1	239.9	135.4	177.1
1978	296.2	287.3	314.8	270.6	142.2	190.3
1979	331.5	328.4	338.0	302.4	146.3	206.7
1980	361.2	359.0	365.9	329.3	145.7	226.0
1981	412.0	416.0	403.6	369.5	149.7	246.8
1982	422.1	408.0	451.6	383.9	146.3	262.3
1983	446.7	424.2	493.7	413.3	151.7	272.4
Quarterly						
1981 I	404.6	409.5	394.3	358.5	149.3	240.1[c]
II	408.7	413.2	399.4	364.3	149.5	243.6
III	419.7	423.8	411.2	375.8	150.9	249.1
IV	416.4	417.0	415.1	379.2	149.0	254.5
1982 I	412.9	410.4	418.1	377.9	146.9	257.2
II	416.8	411.4	427.9	384.0	147.3	260.8
III	416.5	406.5	437.4	386.5	146.9	263.1
IV	416.4	402.3	445.7	388.9	146.2	266.0
1983 I	424.0	410.3	452.4	396.9	147.4	269.2
II	443.0	429.8	470.4	408.6	150.8	271.0
III	443.6	423.4	485.7	418.5	153.3	273.1
IV	453.6	433.1	496.1	429.2	155.5	276.0
1984 I	472.0	454.2	509.1	444.4	159.3	279.0

[a] Gross national product.
[b] Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

"Interest payments on the debt will represent about 13 cents per dollar of budget outlays in fiscal 1984."

(U.S. DEFICIT, from page 1)

nancing through September 30, 1984, or to $1.829 trillion, which would last through September 30, 1985. After a Treasury spokesman said that a heavy inflow of corporate taxes due September 15 would provide enough cash to last until the end of September or early October, Congress postponed action on the debt request. It is expected to come up again after the three-and-a-half week Congressional recess that began in mid-August.

OMB's recent report that the deficits would be somewhat lower than previously estimated was accompanied by a warning that interest costs, nevertheless, would be higher than anticipated earlier, because of the persistence of high interest rates on borrowed funds. For the years 1984-1989, debt service costs are now expected to be $100 billion higher than the February 1984 forecast.

Debt service costs represent a large and growing share of budget outlays. Interest payments on the debt will represent about 13 cents per dollar of budget outlays in fiscal 1984, as compared to less than 8 cents per dollar ten years ago, according to Tax Foundation researchers. Net interest (gross interest on the public debt less interest received by social security and other funds) is estimated at $109.5 billion in 1984—the equivalent of $300 million a day—and at $130.9 billion in 1985. By 1989, OMB puts net interest costs at $153.1 bil-

(Continued on page 4)

Federal Deficits, Debt Outstanding, and Related Measures

Selected Fiscal Years 1974-1985[a]
(Billions)

Year	Receipts	Outlays[b]	Deficit[b]	Gross Federal debt[c]	Net interest
1974	$263.2	$269.4	$-6.1	$486.2	$21.4
1975	279.1	332.2	-53.2	544.1	23.2
1976	298.1	371.8	-73.7	631.9	26.7
1977	355.6	409.2	-53.6	709.1	29.9
1978	399.6	458.7	-59.2	780.4	35.4
1979	463.3	503.5	-40.2	833.8	42.6
1980	517.1	590.9	-73.8	914.3	52.5
1981	599.3	678.2	-78.9	1,003.9	68.7
1982	617.8	745.7	-127.9	1,147.0	85.0
1983	600.6	808.3	-207.8	1,381.9	89.8
1984	670.7	857.8	-187.1	1,575.6	109.5
1985	758.0	948.1	-190.1	1,806.9	130.9

[a] Data for 1984 and 1985 are based on current services estimates presented by the Administration in August 1984.
[b] Includes activities of off-budget agencies; no receipts are attributable to these transactions.
[c] End of fiscal year.
Source: Office of Management and Budget, Department of Commerce; and Tax Foundation computations.

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(TAX INDEX, from page 1)

ceipts of $362.1 billion).

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy.

In comparison with the 14.9 percent annual rate climb in GNP during the first quarter, Federal taxes climbed 21.0 percent, nearly twice the concurrent 10.9 percent rise in state-local taxes.

Rising social insurance and corporate income tax collections accounted for nearly two-thirds of the dollar rise reflected in the Tax Index. Federal social insurance contributions rose at an annual rate of 31 percent in the latest quarter, pushing the associated Tax Index to 710.2 percent of its 1967 base. At the same time, the Index for Federal corporate profits taxes jumped by an annual rate of over 45 percent during the quarter.

While the Federal corporate profits Tax Index remains relatively low, vis-a-vis some other segments of the overall Tax Index—at 243.1 percent of its 1967 base—the state-local corporate profits Tax Index, at 802.8 in the first quarter of 1984, has been one of the fastest rising components of the Index.

Federal, state, and local taxes in the first quarter were 11.3 percent higher than for the same period in 1983. By comparison, real output rose by 8.1 percent and general prices by 3.6 percent, raising GNP in current dollars by 12.0 percent for the same period.

The highest-growth component of the Tax Index has been the state-local personal income tax. Personal income taxes levied by state governments and localities have risen so rapidly that the Index for these receipts reached 1,001.3 in the first quarter of 1984—becoming the first Tax Index component to surpass 1,000. This represents an increase of 15.2 percent from the same period a year before.

The first-quarter Index for Federal personal income taxes stood at 457.6, following a "pre-tax cut" high point of 468.1 in third quarter 1981.

Personal income tax receipts for all government levels combined started this year at an Index level of 506.1, up by 3.1 percent from a year before.

Contributions for social insurance are pressing to join the "700 club," at an Index level of 696.1 for the first quarter (up 12.6 percent from a year ago). Federal social insurance taxes (mainly social security) have been the prime mover in raising this component of the Index. Federal social insurance taxes reached an Index level of 710.2, up 13.1 percent for the year. (These taxes, on an aanual basis, now amount to just over one quarter of a trillion dollars earmarked to finance Federal social insurance programs.)

Indirect business taxes reached an Index of 407.1 at the start of this year, up 10.9 percent over the year. At the Federal level, these taxes reached a 308.4 Index, up by 16.3 percent.

Taxes on corporate profits jumped by more than 50 percent from the same period a year ago, roughly in proportion to the recovery in corporate profits themselves. Corporate profits tax accruals came to a first quarter Index level of 285.4, up from a recessionary low point of 169.0 in the fourth quarter of 1982. This year's figure compared to the same period a year before represents an increase of 56.8 percent—55.6 percent at the Federal level, and 61.5 percent among state and local governments that tax corporate income.

The table on page 1 provides further details.

Social Welfare Claims 34¢ Per Spending $

Major social welfare programs in the United States claimed more than one-third of every dollar spent by Federal, state, and local governments in fiscal year 1982, the latest for which full data are available, according to Tax Foundation analysts. The costs of these programs came to $416 billion out of a spending total in excess of $1.2 trillion, accounting for 33.8 cents of every dollar of government spending. Per U.S. household, spending for these programs amounted to $4,982. Total government spending per household was $14,743.

The second most costly category of government programs in fiscal 1982 was national defense and international relations, at 16.6 cents on the dollar. Next came education (13.5 cents) and interest on general debt (9.9 cents). Per household, defense and international spending totaled $2,446; education, $1,988; and interest, $1,458.

The Federal social security system (OASDHI) is by far the largest among the major social programs analyzed by Tax Foundation economists. It accounted for 16.3 cents of each public expenditure dollar in 1982. Also included in the grouping are social services and income maintenance (public welfare, health and hospitals, and unemployment insurance benefits); veterans' programs that are not classified under other functions; railroad retirement; and government employee retirement. The sum of these major programs understates the size of the social welfare "spending total," broadly defined, in that it excludes public education (shown as a separate category), as well as subsidized housing and many veterans' programs for which the data are not segregable from other groupings, say Tax Foundation researchers.

Growth in the social programs has outdistanced that of other government programs by a wide margin. In 1982, social welfare spending was over 13 times what it was in 1960, while other programs grew to only 6.8 times their size over the same two decades. The 33.8 cents per dollar share of all spending held by social programs in 1982 reflected a rise from 20.6 cents in 1960 and from 25.8 cents in 1970.

Costs for national defense and international programs in 1982 came to less than half of the social welfare total, at 16.6 cents per dollar of all public spending. This fell far below the 25.3 cents per dollar that went for defense in 1970, and the 32.3 cents per dollar that defense needs commanded in 1960.

While education received a somewhat higher share of public funds in 1982 than in 1960, its 13.5 cents per dollar claim on the total in 1982 declined from 16.7 cents in 1970 and 15.0 cents in 1980.

In recent years, the fastest growing cost of government has been interest on general debt, which rose from 6.2 cents per dollar in 1960 to 9.9 cents per dollar of total spending in 1982. The costs of paying interest on government borrowing grew 60 percent from 1980-1982.

The four largest catagories of spending—major social welfare, defense and international relations, education, and interest—accounted for a combined total of 73.8 cents per dollar of all spending in 1982, or $10,873 per U.S. household. Among the remaining categories, the most notable change since 1960 was the relative decline in the transportation category, as the interstate highway system authorized in 1956 neared completion.

The accompanying table provides further details.

"In 1982, social welfare spending was over 13 times what it was in 1960, while other programs grew to only 6.8 times their size over the same two decades."

MARK YOUR CALENDAR

Tax Foundation's **36th National Tax Conference** and **47th Annual Dinner** will be held this year on **Wednesday, December 5, 1984,** at the Plaza Hotel in New York City. Complete details and reservation forms for the Conference and Dinner will be in the mail shortly.

Unitary Tax Proceedings Now Available

"State Income Taxation of Multinational Corporations," Proceedings of a Tax Foundation seminar held in Chicago, Illinois, on May 10, 1984, on unitary taxation is now available.

This publication explores the legislative and judicial history of the question, the current tax treatment afforded multinationals by states employing the unitary concept, and possible solutions for resolving the differences among the states, the multinationals, and the Federal government.

Copies are available direct from the Tax Foundation at $15.00 each ($12.00 members), plus $1.00 postage and handling per order.

How Federal, State, and Local Governments Spend Each Dollar of Public Funds

Selected Fiscal Years 1960-1982

Function	Cents per dollar of total spending			
	1960	1970	1980	1982
Major social welfare programs, total	20.6	25.8	33.6	33.8
Social security (OASDHI)	7.1	10.8	15.6	16.3
Social services and income maintenance[1]	8.5	10.7	13.0	12.6
Government employee retirement	1.4	1.9	3.0	3.0
Veterans (not elsewhere classified)	2.5	1.6	1.3	1.2
Railroad retirement	.6	.5	.5	.4
Veterans' life insurance	.4	.3	.1	.1
National defense and international relations	32.3	25.3	15.6	16.6
Education	12.8	16.7	15.0	13.5
Interest on general debt	6.2	5.5	7.9	9.9
Environment and housing	5.4	4.4	4.9	5.0
Utilities and liquor stores	3.4	2.8	3.8	3.9
Transportation	7.6	6.2	4.4	3.6
Public safety	1.8	2.0	2.3	2.2
Government administration	1.8	1.9	2.2	2.0
Postal service (Federal)	2.5	2.3	1.9	1.8
Sanitation	1.1	1.0	1.4	1.2
All other	4.5	6.1	7.0	7.9
Exhibit (billions):				
Total spending	$151.3	$333.0	$958.7	$1,231.4

[1] Includes public welfare, hospitals, health, and unemployment insurance benefits.
Source: Department of Commerce, Bureau of the Census; and Tax Foundation computations.

"Social security taxes have more than doubled their share in the total revenue system."

Individual Income Tax Biggest Revenue Raiser

Individual income taxes took in the big money for U.S. governments in fiscal year 1982, latest for which details are available. Such taxes furnished 30.5 cents out of every revenue dollar collected by Federal, state, and local governments, according to Tax Foundation researchers.

Next came social security payroll taxes (OASDHI), at 15.9 cents per dollar of total revenue; current charges and user fees, 8.9 cents; miscellaneous general revenue (interest earnings, special assessments, etc.), 8.0 cents; property taxes, 7.2 cents; selective sales and excises, 6.9 cents; corporate income taxes, 5.6 cents; and general sales taxes, 5.3 cents.

Examining revenue trends in the period since 1960, Tax Foundation economists point out a number of significant modifications in the way government programs are funded.

- More public spending is now financed by borrowing. In 1982, nearly 14 cents of every dollar of Federal spending was borrowed. This was partly offset by state-local surpluses, to bring net borrowing by all governments to 7 cents per dollar of spending. (In 1960, a surplus in Federal accounts more than offset a smaller deficit in state-local accounts.)
- The role of taxes in financing government services has declined relative to nontaxes. The share of taxes in the revenue dollar dropped from 82.7 cents in 1960 to 76.2 cents in 1982; nearly all of the reduction came after 1970. In 1982 taxes were 7.5 times their size in 1960; nontaxes were more than 10 times their size then.
- Social security taxes, the fastest growing revenue source, have more than doubled their share in the total revenue system. In 1982, they were 17 times as large as 22 years earlier.
- Over the years corporate income taxes, selective sales and excise taxes, and property taxes have played a declining role in the overall revenue structure.

The accompanying table provides further details.

How Federal, State, and Local Governments Raise Each Dollar of Public Funds

Selected Fiscal years 1960-1982

Source	Cents per dollar of total revenue			
	1960	1970	1980	1982
Tax revenues	82.7	82.4	78.2	76.2
Individual income	28.2	30.3	30.7	30.5
Social security (OASDHI)	7.0	11.5	15.0	15.9
Property	10.7	10.2	7.3	7.2
Selective sales and excises	12.5	9.8	6.5	6.9
Corporate income	14.8	11.0	8.4	5.6
General sales	3.5	4.8	5.5	5.3
Other taxes[a]	6.0	4.8	4.8	4.9
Nontax revenues	17.3	17.6	21.8	23.8
Current charges	8.1	7.9	8.6	8.9
Miscellaneous general revenue[b]	3.3	4.0	6.7	8.0
Employee retirement	1.9	2.5	3.1	3.3
Utilities and liquor stores	3.2	2.6	2.7	2.9
Other nontaxes	.8	.6	.7	.6
Exhibit (billions):				
Total revenues	$153.1	$333.8	$932.2	$1,144.8
Surplus (+) or deficit (−)	+$ 1.8	+$ .8	−$ 26.5	−$ 86.6

[a] Includes death and gift, motor vehicle and operators' license, unemployment compensation, and miscellaneous taxes.
[b] Includes interest earnings, special assessments, sale of property, and others.
Source: *Facts and Figures on Government Finance, 1983*, Tax Foundation, Incorporated; basic data from U.S. Department of Commerce, Bureau of the Census.

(U.S. DEFICIT, from page 2)

lion, and the CBO places the tab at $214 billion. In other words, the costs would fall somewhere between $419 million and $586 million each day of the year, according to Tax Foundation economists.

In the past ten years the size of the gross Federal debt has more than tripled, rising by $1.1 trillion, from $486 billion to almost $1.6 trillion. At the same time, net interest outlays on the debt have risen to five times their size in 1974, because of higher indebtedness and higher interest rates. At the end of June 1984, the average interest rate being paid by the Treasury on borrowed funds was 10.829 percent, up from 6.560 percent ten years earlier.

The table on page 2 provides additional details.

Toward Better Government Founded 1937

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